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HEARING TO REVIEW THE PROPOSALS TO AMEND THE PROGRAM CROP PROVISIONS OF THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

HEARING

BEFORE THE

SUBCOMMITTEE ON
GENERAL FARM COMMODITIES
AND RISK MANAGEMENT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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HEARING TO REVIEW THE PROPOSALS TO AMEND THE PROGRAM CROP PROVISIONS OF THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

WEDNESDAY, MARCH 28, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10 a.m., in Room 1302 of the Longworth House Office Building, Hon. Bob Etheridge [Chairman of the Subcommittee] presiding.

Members present: Representatives Etheridge, Salazar, Marshall, Boyda, Herseth, Ellsworth, Costa, Walz, Pomeroy, Peterson (*ex officio*), Moran, Johnson, Graves, Boustany, Conaway, and McCarthy.

Staff present: Craig Jagger, Scott Kuschmider, Clark Ogilvie, John Riley, Sharon Rusnak, Anne Simmons, Debbie Smith, Bryan Dierlam, and Jamie Weyer.

OPENING STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

The CHAIRMAN. This hearing of the Subcommittee on General Farm Commodities and Risk Management to review proposals to amend the program crops of the Farm Security and Rural Investment Act of 2002 will come to order. Let me welcome all of the Members and the witnesses and other guests to the Subcommittee's first hearing of the 110th Congress. I apologize to all of you for the cramped conditions we find ourselves in today, and that so many people were unable to get into the hearing room. The main hearing room is not quite ready for prime time. It should be very shortly, so we are just going to have to make do today as we get started.

Almost 6 months from today, most of the provisions of the Farm Security and Rural Investment Act of 2002 will expire. Full Committee Chairman Peterson has made it our goal to complete work on the next farm bill before that point arrives and occurs. This Subcommittee is tasked with the responsibility of crafting those provisions of the next farm bill that impact what is commonly called program crops, and as most of you know, it includes things like cotton, corn, wheat, rice, soybeans, minor oilseeds, barley, sorghum, dry peas and lentils. The farm bill programs for these commodities comprise the primary safety net for those who grow these crops for American consumers. As such, the 2002 Farm Bill is not as perfect or as comprehensive a safety net as I would like to see or many others would. However, I believe that these farm programs, by and large, endorse strong support in farm county. At least that is the message that I took away from the series of excellent field hearings held in the last Congress by both the full Committee, under the Chairmanship of Bob Goodlatte, my good friend and colleague, then-Subcommittee Chairman, Jerry Moran, as we held several hearings across the country.

Since these hearings, the Administration has put forth a number of, well, let me call them interesting ideas for the next farm bill. Additionally, a number of farm organizations have, since that time, held their annual meetings; and as a result have approved specific proposals and suggestions for the next farm bill, which we will start dealing with. And finally, we received the January and now the March estimates from the Congressional Budget Office of what our baseline in the next farm bill is going to be. These estimates point to the same inescapable conclusion: we don't have a lot of extra money for the next farm bill. So the purpose of today's hearing is to take testimony from farm groups and to hear in detail what specific ideas their members would like to see in the next farm bill.

I also expect that, in that process, we will also hear what each of you think about each other's specific proposals as well as the Administration's proposal. And as you give your testimony, I do hope that you will keep in mind this Committee's tight fiscal constraints that are being imposed on it by the full Committee as we write the next farm bill, and that, of course, is being imposed by the current financial conditions we have placed all across various government programs under our budget.

[The prepared statement of Mr. Etheridge follows:]

PREPARED STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

I want to welcome all the Members, witnesses, and other guests to the Subcommittee's first hearing in the 110th Congress.

I apologize that we are going to be a little cramped here today and that so many people are not able to get into the hearing room, but the main hearing room in 1300 is almost, but not quite ready for prime time yet. So we have to make do.

Almost 6 months from today, most of the provisions of the Farm Security and Rural Investment Act of 2002 will expire. Full Committee Chairman Peterson has made it our goal to complete work on the next farm bill before that occurs.

This Subcommittee is tasked with the responsibility of crafting those provisions of the next farm bill that impact what are commonly called program crops: among them are cotton, corn, wheat, rice, soybeans, minor oilseeds, barley, sorghum, dry peas, and lentils.

The farm bill programs for these commodities comprise the primary safety net for those who grow these crops. As such, the 2002 Farm Bill is not as perfect or as comprehensive a safety net as I would like to see. However, I believe these farm programs—by and large—enjoy strong support in farm country.

At least, that is the message I took away from the series of excellent field hearings held last Congress by both then-Full Committee Chairman Bob Goodlatte and my good friend and colleague, then-Subcommittee Chairman Jerry Moran.

Since those hearings, a few things have happened.

The Administration, to its credit, has put forth a number of; well, let's call them interesting ideas for the next farm bill. Additionally, a number of farm organizations have since held their annual meetings and, as a result, approved specific proposals and suggestions for the next farm bill.

Finally, we have received the January and then March estimates from the Congressional Budget Office of what our budget baseline for the next farm bill is. These estimates point to the same inescapable conclusion.

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The purpose of today's hearing is to take testimony from farm groups and hear in detail what specific ideas their members want to see in the next farm bill. I also expect in that process that we will also hear what they think of each other's specific proposals as well as the Administration's proposal.

As you give your testimony, I hope you will keep in mind the tight fiscal restraints that are imposed on this Subcommittee and the Full Committee in writing the next farm bill.

Because we have quite a few witnesses, I will end my comments here and recognize the Ranking Member of the Subcommittee, Congressman Jerry Moran, for any opening statement he would like to make.

The CHAIRMAN. Because we have quite a few witnesses, I will end my comments here and recognize my good friend and Ranking Member of the Subcommittee, Congressman Jerry Moran, for whatever opening statements he might have. Jerry.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM KANSAS

Mr. MORAN. Mr. Chairman, thank you very much. With your consent, I will submit my opening statement for the record and just make a few comments.

First of all, I would like to congratulate you on succeeding as the Chairman of this Subcommittee and I pledge my efforts to work with you to see that we develop good farm policy in this country on behalf of all of agriculture, whether they happen to grow crops in North Carolina or Kansas. I did take some discomfort at your statement about the then-Chairman of this Subcommittee. It seemed like you overemphasized the word then, but I am certain that we can work out our differences today, and in the future, and again pursue policies that matter to American agriculture for the benefits of farmers and ranchers, but really for the benefit of the U.S. economy and feeding and clothing a world that needs our products.

I would also like to welcome to our Subcommittee my colleague from Kansas, Mrs. Nancy Boyda, who joins this Subcommittee. I welcome her to Congress, but especially I am pleased to have a Kansan join me in the efforts as we develop this farm policy, and I look forward to working with her. This is a hearing that is an important one. This really does set the stage for us to pursue. As we conclude our budget debates and determine what the baseline is, it is now really time to get down to work. And this Subcommittee and the full Agriculture Committee has had a long series of hearings here in Washington, D.C. and across the country as we try to figure out what the right questions are.

And I think it is fortunate that most of us recognize the experts are the people in this room, as well as those they represent back home that run the combines and plow the fields and earn a living every day on the farm. I am especially delighted today to have four Kansans, who are farmers and who earn their living on the land, who join us, three on this panel and one later. Greg Shelor, the Past President of the National Sorghum Producers will testify on the second panel. But with us today is Mr. Ken McCauley, who is the President of the National Corn Growers Association; Mr. John

Thaemert, who is the President of the National Association of Wheat Growers; and from my hometown, Mr. Lance Russell, who is the President of the Kansas Sunflower Commission. So as we get perspective today, we will have a particular Kansas flavor and I am grateful for that, but I know this Committee will do its work on behalf of all farmers across the country. Again, I thank you for the hospitality and kindness you have extended to me and look forward to working with you.

[The prepared statement of Mr. Moran follows:]

PREPARED STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM KANSAS

Thank you, Mr. Chairman. It is a pleasure for me to be here with you and the rest of the Subcommittee today as we hear proposals from the industry on how to amend the commodity title of the 2002 Farm Bill. I would like to thank all the representatives from the commodity groups who are testifying before us today. We have ten witnesses representing ten different crops. It is good to see such a diverse representation of American agriculture in one place. I am especially pleased to see so many Kansans testifying today.

Last year this Subcommittee, as well as the full Committee, began gathering producer input at field hearings across the nation. Our intent is to use that information in writing the 2007 Farm Bill. Soon we will have a budget resolution and the Committee will set to work drafting the next farm bill. Therefore, it is appropriate that our series of fact finding hearings culminate with this broad panel of agricultural producers.

While I am sure that each organization may have a different perspective on how to improve the commodity title, we can all agree that maintaining a strong and vibrant agriculture industry in the United States is essential to our nation's well-being. Agriculture across this nation is diverse. A wheat producer in Kansas may not have the same concerns as a cotton producer in Texas. It is this Subcommittee's duty to listen to the problems faced by all producers and try to develop policy that will ensure the United States continues to have a safe and abundant supply of food, fiber and, as of recently, energy.

It is also important that we write a farm bill that allows producers to remain profitable. During our field hearings last year, many producers informed this Subcommittee that the 2002 Farm Bill had relatively good success in providing a safety net for producers. However, I am sure many of today's witnesses will tell us there may be some ways we can improve our current programs. I welcome all the witnesses' perspectives as we move forward with the 2007 Farm Bill.

Again, thank you, Mr. Chairman, for holding this hearing and I look forward to the testimony of today's witnesses.

The CHAIRMAN. Jerry, I would say that the leadership from Kansas is still present. I looked down the list earlier and I said, "Good gracious, Kansas is still running the show." Thank you and I look forward to working with you. And let me ask the other Members, if they would, for any opening statements they might have for the record, so that the witnesses may begin their testimony and so that we make sure there is ample time for questions, because there is going to be a full Committee today.

[The prepared statements of Messrs. Peterson, Goodlatte, Graves, and Neugebauer follow:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. Chairman, thank you for calling this hearing today.

As everyone in this room knows, the baseline funding to support the agricultural safety net has fallen substantially—roughly $60 billion over the next 10 years—due to higher than average commodity prices. This Committee made a strong bipartisan pitch before the Budget Committee last month to support additional resources for agriculture programs so that these high prices would not affect the forward-looking policies needed to facilitate a strong farm sector as well as helping our nation move toward energy independence. It looks as if this Committee will not have any wiggle room in terms of additional funding, and if that is the case, we will write the farm bill accordingly.

Last year, during out field hearings, farmers and ranchers told us that the 2002 Farm Bill is working well for the most part and that its basic structure should be maintained.

That support for the commodity title contrasted sharply with the reaction we got from the 1996 Farm Bill. That bill was written during a time of high commodity prices, much like the environment we are in today. However, prices didn't stay high, and Congress had to intervene, spending more than $23 billion in additional "low price" payments to farmers over its life. It ended up being a disaster for producers and taxpayers alike.

In contrast, the 2002 Farm Bill has cost less than was projected, and that is because it is working well—making payments only when commodity prices are low and saving taxpayers billions of dollars.

In one way, we have become victims of our own success. The last time a farm bill was written, the baseline for the safety net programs was $140 billion over 10 years. The most recent baseline has shrunk to about $80 billion.

As we close in on a budget resolution and move into consideration of the farm bill in this and the other Subcommittees, I hope to build upon the strong fundamental structure that is already in place. The commodity title will not be decreased because prices are high, it will not be raided to pay for other programs, nor will it be dismantled to meet trade obligations that do not yet exist. We have made these kinds of assumptions once before with catastrophic results, and taxpayers have paid the price.

I thank today's witnesses for appearing, and I yield back my time.

Prepared Statement of Hon. Bob Goodlatte, a Representative in Congress From Virginia

Since the Agriculture Committee began its review of the 2002 Farm Bill a little more than a year ago, we've received a wide assortment of input and policy recommendations from a variety of producers and producer groups. Today, we are here to review some of those recommendations for the commodity title of the farm bill.

As we proceed with writing the farm bill this year, it is important to consider some of the factors that will shape the environment in which it will be written. One of the most influential factors is the budget. Today, our budget flexibility is quite limited, a significant difference from the budget situation we found ourselves in when writing the last farm bill in 2002. In FY 2006, outlays for commodity programs were $18.221 billion. The most recent CBO projections estimate spending for the same programs over the next 10 years to be between $7.7 billion and $9.9 billion a year. Essentially, we are going into the reauthorization of the 2002 Farm Bill with a commodity budget almost 43 percent smaller than what we had in 2002. This means we will have to be particularly creative in our approach to this farm bill to ensure that our producers can continue to produce the safest, most affordable food and fiber supply in the world.

Throughout our farm bill field hearing series last year, the feedback we heard about the current commodity programs was generally positive and many asked that we just extend the current title. However, requests for an extension were also accompanied with requests for "tweaks" in the current language. Additionally, some groups, such as the corn producers in my home State of Virginia, assert that the current program doesn't adequately cover production in areas of higher risk and are seeking changes that would work better for them. While a complete consensus would have certainly made our job a lot easier, we had no illusions that it would be that simple.

Today, I hope to learn a little more detail about our witnesses' recommendations for the upcoming farm bill, keeping in mind the serious budget challenges we face. Is a simple extension, meaning no changes, of the current commodity title truly in the best interest of producers? Does the current policy meet the needs of all commodity producers? If not, what aspects do you recommend we modify to make the programs more effective for more producers?

I look forward to the testimony of our witnesses and would like to thank them for the thought and effort that went into their proposals and the testimony they prepared for us today.

PREPARED STATEMENT OF HON. SAM GRAVES, A REPRESENTATIVE IN CONGRESS FROM MISSOURI

Thank you Chairman Etheridge and Ranking Member Moran for convening this hearing today. As a farmer myself, I know that few titles in the farm bill can have as much impact on agriculture as the commodity title.

While many farmers would like to see the different program rates adjusted in one minor way or another, the overwhelming number of farmers in my district believe the current structure of commodity programs that we approved in 2002—notwithstanding the rates which we will hear more about today—has the ability and potential to provide the all important safety net for agriculture that this Committee strives to provide.

I am concerned that major changes to the structure of commodity programs, will cause confusion and complication for producers who already must expend a great deal of time and effort to participate in USDA programs.

I am also concerned with many of the proposals for the commodity title advocated by USDA in the Administration's farm bill draft. While the program rates cited in that document may provide an adequate safety net during years when prices are good, I have serious concerns about what would happen to many farmers across our nation in times of lower prices. Without an adequate safety net during tough years, we cannot count on the safe, affordable, abundant food supply that our farmers provide for us three times a day.

Finally, Mr. Chairman, I'd like to also express my support for programs—through the commodity title and elsewhere—to help young and beginning farmers make agriculture a viable career option. Farmers are an aging population, and we will be in serious trouble down the road if more young people aren't able to get into farming.

Thank you again Chairman Etheridge and Ranking Member Moran. I look forward to the testimony of our witnesses.

PREPARED STATEMENT OF HON. RANDY NEUGEBAUER, A REPRESENTATIVE IN CONGRESS FROM TEXAS

I appreciate Chairman Etheridge and Ranking Member Moran calling today's hearing and thank the witnesses representing their fellow producers for their testimony.

This Subcommittee has the responsibility for crafting the title of the farm bill that farmers in our districts are likely paying the most attention to. It has a direct impact on them, and they are looking to us to get this right. Producer organizations have clearly put a lot of work into their proposals, and input from producers is most important to me in this farm bill process.

Based on what I'm hearing from farmers in my district, the 2002 Farm Bill has been successful. The current farm bill provides us with a great starting point; we don't have to start from scratch. At the same time, as we will hear today, a few tweaks and adjustments may help make the 2002 Farm Bill work even better.

In addition to working well for producers, the 2002 Farm Bill has also saved taxpayer dollars. According to the Congressional Budget Office, the total costs for the commodity programs over the life of the bill are expected to come in $25 billion less than originally projected. For several commodities, demand is strong, and prices are good. For others, prices are not so high, and the farm bill safety net has kicked in.

While a higher baseline may have made it easier to add new things to the farm bill or adjust programs, the baseline reflects that the 2002 Farm Bill has worked as it was intended to. We could have a much more difficult debate if we had to explain to Members not on the Agriculture Committee why commodity programs cost more than projected.

One option I think the Subcommittee should consider is improving coverage within crop insurance to help farmers better protect against disasters. I have legislation that allows producers to stack some of a supplemental group policy on top of their individual yield or revenue policy. USDA proposed supplemental insurance that would cover some or all of the farmer's deductible if the county yield is lower than average. Farmers need a better option than uncertain and costly disaster assistance to help manage risks.

While there will be differences among commodity groups as to how best write this farm bill, I encourage you, to the greatest extent possible, to work toward common ground. When agriculture can speak with a unified voice, all producers benefit in the long run.

I look forward to working with my colleagues on this Subcommittee on crafting a commodity title for the 2007 Farm Bill that continues to be a success for the farmers we represent.

The CHAIRMAN. And with that, I would like to welcome our first panel to the table. Our first panelist is Mr. John Pucheu, Chairman of the National Cotton Council, from California; second, Mr. Ken McCauley, President of the National Corn Growers Association, as has been indicated, from Kansas; Mr. Dan Gertson, Chairman of the U.S. Rice Producers Association, from Texas; Mr. Richard Ostlie, American Soybean Association, from North Dakota; Mr. Lance Russell, President of the Kansas Sunflower Commission, from Kansas; and Mr. John Thaemert, President of the National Association of Wheat Growers, from Kansas. I don't know why in the world we couldn't have gotten a couple more from Kansas, then we would have a full table. But gentlemen, welcome.

Mr. MORAN. Mr. Chairman, if you would allow me to intrude? We grow every crop that is represented at this panel today and I could never say that about rice, but we or the State of Kansas has accepted a genetically modified rice, so every crop that is represented today is now grown in the 1st Congressional District in the State of Kansas. We are a diverse state.

The CHAIRMAN. It is quite obvious we have changed Chairmen, but nothing has changed.

Mr. BOUSTANY. Mr. Chairman, does mean that we can send all our genetically modified rice to Kansas?

The CHAIRMAN. I believe we better get on with the business at hand. Mr. Pucheu, you may begin. And please let me ask you, if you would, we have a light and we ask that you summarize your statement and it will be entered into the record, and keep it to 5 minutes if you possibly can. Thank you.

STATEMENT OF JOHN E. PUCHEU, JR., CHAIRMAN, NATIONAL COTTON COUNCIL OF AMERICA; PARTNER, PUCHEU BROTHERS RANCH, TRANQUILITY, CA

Mr. PUCHEU. Mr. Chairman, thank you for holding this hearing and allowing me to present the views of the National Cotton Council. My name is John Pucheu and I serve as Chairman of the National Cotton Council. My brother and I own and operate a diversified farming operation in Tranquility, California.

The Council's leaders have reaffirmed our recommendation that new farm legislation be pattered after the basic provisions of the 2002 Farm Bill. A marketing loan available on all production is the foundation of a sound farm policy. The combination of direct and counter-cyclical payments provides effect income support, especially in periods of low prices. We support planning flexibility so producers can respond to market signals. We oppose further reductions in limitations on benefits or more restrictive eligibility requirements, and we urge continuation of the extra long stable cotton program.

We recognize that cotton markets are changing. Adjustments in the administration of the cotton marketing loan are needed to maintain competitiveness. Recently, to prepare for the farm bill, we asked USDA to assist in a thorough review of all aspects of the cotton marketing loan. We also recommended changes to provide more flexibility in the way loans are redeemed so U.S. cotton can be marketed even more efficiently.

U.S. mill consumption will be less than 50 percent of the levels just 7 years ago. U.S. mills are competing with heavily subsidized imports without a safety net. In recent months, it has been emphasized that the United States needs a robust and viable renewable fuels production base, protected by high tariffs and a significant tax credit. Downstream users of cotton products also need assistance. We recommend a modest, low-cost program for U.S. textile mills which would be offset by savings in other provisions of the cotton program.

Mr. Chairman, I would like to make a few comments about the Administration's farm bill proposal. We are pleased that it recognizes the importance of maintaining the structure of current law and that the marketing loan continues to operate without unworkable limits. We are concerned by the proposal to implement a formula that would result in a sudden precipitous drop in the cotton loan rate, even though it is supposed to be offset by a significant increase in the direct payment. Unfortunately, replacing the marketing loan, which is available on actual production with a decoupled payment based on ancient history, doesn't offer adequate compensation.

We are also concerned by the proposal to terminate the three-entity rule, which was viewed as a significant reform in 1989. If termination of the three-entity rule could be paired with a sustainable increase in limits, it could simplify compliance. You and your colleagues should also carefully consider how husband and wife eligibility is to be determined, and if the landowner exemption will continue to apply, and what regulatory changes USDA would make to the definition of "actively engaged in farming."

We are especially concerned about the proposal to modify the existing adjusted gross income test by dropping the level to $200,000 for commodity programs, while apparently leaving the existing $2½ million AGI test in place for conservation programs. The current test allows continued eligibility as long as the individual earns 75 percent or more of their income from farming, ranching or forestry. But this key proposal or provision is not in the Administration's proposal. The Administration cites statistics that only a small percentage of the recipients of a farm program payment have an AGI above the new limit. We think the important question is, is what percent of U.S. commodity production will be affected? For cotton, we believe it will be significant and we believe the new test will result in growers being eligible 1 year and out the next, making it very difficult to secure financing or make long-term plans.

Mr. Chairman, cotton farmers continue to be deeply concerned about the efforts in the WTO Doha negotiation to isolate cotton and to squeeze even more concessions from the United States. The United States should not make additional concessions on domestic support until our market access objectives are met and exceeded.

I will conclude with brief comments about our concerns with the sluggish U.S. cotton sales and the high levels of cotton underneath the loan. Why are U.S. exports lagging? First, the termination of Step two has hurt U.S. competitiveness; second, subsidies and trade restrictions by other countries are having significant impacts on world cotton trade; and third, total export commitments to China are 78 percent below last year. The result is more cotton in the loan because of the lack of demand in some of our key export markets. We are concerned by the recent action of the Department to impose additional financial penalties on farmers who forfeit their cotton if the demand doesn't rebound. It is imperative to find ways to ensure that U.S. cotton is competitive. Thank you for the opportunity to testify today and I will be pleased to respond to your questions. Thank you.

[The prepared statement of Mr. Pucheu follows:]

PREPARED STATEMENT OF JOHN E. PUCHEU, JR., CHAIRMAN, NATIONAL COTTON COUNCIL OF AMERICA; PARTNER, PUCHEU BROTHERS RANCH, TRANQUILITY, CA

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginners, cottonseed handlers, merchants, cooperatives, warehousemen and textile manufacturers. While a majority of the industry is concentrated in 17 cotton producing states, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and home furnishings are located in Virtually every state.

The industry and its suppliers, together with the cotton product manufacturers, account for more than 440,000 jobs in the U.S. [U.S. Census of Agriculture]. Annual cotton production is valued at more than $5 billion at the farm gate, the point at which the producer sells [Economic Services, NCC]. In addition to the cotton fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. While cotton's farm-gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the annual business revenue generated by cotton and its products in the U.S. economy is estimated to be in excess of $120 billion [Retail Values of U.S. Agricultural Commodities, NCC].

Mr. Chairman, thank you for holding this hearing and for allowing me to present the views and concerns of the members of the National Cotton Council. My name is John Pucheu. I serve as Chairman of the National Cotton Council. My brother and I own and operate a diversified farming operation in Tranquillity, California—a part of the highly productive San Joaquin Valley.

Mr. Chairman, the Council's recent annual meeting was highly productive. In spite of numerous challenges, I am pleased that our leaders once again achieved consensus and reaffirmed our priorities for sound farm policy. Stated simply, we haven't changed our opinion that new farm legislation should be patterned after the basic provisions of the 2002 Farm Bill. A marketing assistance loan that is available on all production is the foundation of sound farm policy. The combination of direct and counter-cyclical payments provides effective income support when needed most—in times of low prices. We also support maintenance of adequate planting flexibility to allow producers to respond to market signals. And while we are opposed to payment limitations of any kind, we certainly oppose any change that reduces existing limits or further restricts eligibility.

While we believe the basic structure of our farm program provides an effective safety net, we also recognize that our markets are changing. There need to be adjustments to the administration of the cotton marketing assistance loan to maintain competitiveness. Last August, we worked with USDA as they developed an extensive regulation that allows relocation of bales under loan to better position them to move to market. The regulations also capped the monthly storage charges paid by CCC and require warehouses to report performance on a weekly basis. Recently, we asked USDA to assist in a thorough review of the methodology used to establish loan premiums and discounts; whether location differentials make sense in a market that is approximately 75% exports; and whether the discovery of an accurate world price should use Far East rather than Northern Europe price quotations. We also recommend that the statute and the regulations be changed to provide more flexibility in the way loans are redeemed. We believe these changes can adequately protect CCC's collateral while allowing producers, cooperatives, and merchants to market U.S. cotton more effectively.

Mr. Chairman, we also want to work with you and your colleagues to develop provisions which will assist our struggling domestic textile industry. According to USDA, domestic mill consumption of cotton is forecast at 5.0 million bales for 2006–2007 (Figure 1). This is 900,000 bales or 15% below levels of a year earlier. The current projection means consumption will be less than 50% of levels just 7 years ago. It will be the lowest U.S. mill consumption since 1931–1932. Quoting from a USDA analyst's report to the recent USDA Outlook Conference ". . . *this dramatic decline in U.S. mill use has resulted from increased competition of imported textile and apparel products . . . China is now the leading supplier of cotton textile and apparel products to the U.S.—accounting for nearly 20% in 2005 and growing rapidly.*" While imports rise and domestic mill consumption declines, cotton use at retail actually increased to 23.6 million bale equivalents in 2006 and will continue to increase in 2007 and the foreseeable future. U.S. consumers continue to drive global demand for cotton—thanks in part to the U.S. producer and importer-funded promotion program operated by Cotton Incorporated. U.S. per capita consumption of cotton rose to 37.9 lbs in 2006. To place that in perspective, PCI Fibres places annual per capita cotton consumption in the developed economies of Western Europe and Japan at just over 16 lbs, and USDA is currently estimating that China's consumers purchase only 5.5 lbs of cotton textile products annually.

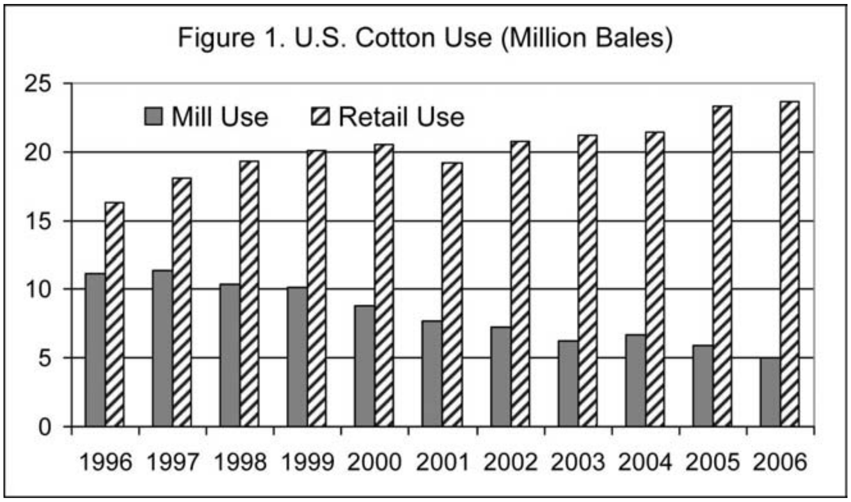


Figure 1. U.S. Cotton Use (Million Bales)

U.S. mills are competing with heavily subsidized imports without a safety net. In recent months, it has been stated and re-stated that the U.S. needs a robust and viable renewable fuels production base protected by a high tariff and significant tax credit. Mr. Chairman, we support that policy because it clearly benefits farmers and is in the interest of U.S. security. But downstream users of cotton products are not afforded the same high level of protection. That protection was, in fact, traded away during the Uruguay Round of trade negotiations. As a result, we need to provide compensation to our domestic customers—this country's textile production base. We recommend competitiveness assistance to U.S. mills for every pound of cotton they consume. This modest program would have very low costs and could be offset by minor modifications to other aspects of the cotton program.

Mr. Chairman, I want to also make a few comments about the Administration's farm bill proposal. We are pleased that it recognizes the importance of maintaining the structure of current law. We also appreciate the recommendation that the marketing assistance loan continue to operate without onerous, unworkable limits. But it won't surprise you to hear that we are deeply concerned by the proposal to implement a loan rate formula that would result in a sudden, precipitous drop in the cotton loan rate.

We understand that the proposal to significantly increase the direct payment is designed to compensate cotton producers for the lower loan—but it doesn't do an adequate job. Replacing an important component of our policy that is available on actual production with a decoupled payment based on ancient history doesn't offer adequate compensation—especially to growers in the Southeast and to new growers in places like Kansas and northern Texas. Cutting the loan rate and raising the direct payment may be considered good policy in Geneva, but in my opinion, it certainly doesn't meet the Secretary's objective of equitable farm policy.

We were also intrigued and disappointed by the proposal to terminate the three-entity rule, which has been in place since 1989 when it was viewed as a significant compromise. The intriguing part is the simultaneous increase of the limits on direct payments, counter-cyclical payments and marketing loan gains. If we could be assured that the termination of the three-entity rule would be paired with the new limits—though they still disproportionately impact cotton, rice and peanuts—it might be worth considering as a means to simplify farmer's compliance. However, the clear danger is that some will support the termination of the three-entity rule and insist that limits remain at current levels. You and your colleagues should also carefully consider how husband and wife eligibility is to be determined, if the landowner exemption will continue to apply, and what regulatory changes USDA would make to the definition of actively engaged in farming.

The Administration's proposal to modify the existing adjusted gross income (AGI) test by dropping the level to $200,000 is a bad idea. It is bad policy and bad operationally. Congress added a $2.5 million AGI test to the last farm bill in response to media criticism that high-income individuals—namely Scotty Pippin and Ted Turner—were receiving farm program payments. To ensure high-income individuals were denied benefits while not penalizing individuals who depend on farming, ranching or forestry for their livelihood, a 3 year AGI test was added to the 2002 farm law. An important provision provides an exemption from the means test as long as the individual or entity earns 75% or more income from farming, ranching or forestry. The Administration apparently selected $200,000 as a new ceiling so they can say that less than 2% of Americans who file tax returns have an AGI at that level. The Administration also contends that 4.2% of recipients of farm program payments who filed a Schedule F in 2004 have an AGI above $200,000 and that only 4.7% of all payments received by farm proprietors went to those with an AGI over $200,000. That is catchy spin, but dangerously misleading. The real question is what percent of U.S. commodity production will be affected. For cotton, we believe it will be very significant.

This new AGI ceiling was not chosen with any regard to financial reality on commercial farms. Let's be clear that a farmer's AGI is not profit. There are still a number of expenses that must be covered. In addition to personal expenses, farmers must service debt that, given the costs of today's machinery and land, can easily reach into the millions. Furthermore, the proposal inexplicably eliminates the 75% exclusion for people who farm and ranch—indicating that the purpose behind the means test has changed from one targeted to exclude millionaires who happen to own a farm to one that specifically targets active farmers and ranchers. Oddly, the Administration left the $2.5 million AGI test in place to determine eligibility for conservation programs—which are the payments the aforementioned Mr. Pippin actually received. The Administration's proposal condemns growers and their lenders to the ping-pong effect of "in 1 year and out the next" which is directly at odds with the Secretary's "equitable and predictable" criteria for the new farm law. Finally, in another interesting twist, the U.S. will receive no credit in the WTO for this type of a means test.

We were also deeply disappointed by the Administration's proposal to eliminate storage credits when prices are low. The practice of paying storage was put in place to ensure cotton was available at competitive prices, yet the Administration proposes eliminating the credits effective October 1, 2007, just as 2006 crop loans are maturing. This would result in significant market disruption and income losses to farmers by changing the existing rule during this marketing year. Inexplicably, the Administration proposed eliminating the credits in their FY08 budget proposal, but not in their farm bill proposal.

Access to an affordable crop insurance program is an important tool for most farmers. However, given the continued inequities of coverage and service in different regions and for different crops, it is time for a thorough evaluation of the cost and benefits associated with the multi-peril crop insurance program. Also, the cotton industry would be interested in exploring enhancements to crop insurance products that would offer protection on an individual's deductible. The Administration included the concept of supplemental insurance coverage in their farm bill proposal, and many growers are interested in further analysis to identify an effective program that would help mitigate production risk.

The National Cotton Council believes conservation programs will continue to be an important component of effective farm policy. The Conservation Reserve Program, Conservation Security Program and Environmental Quality Incentive Program are proven, valuable ways to promote sound, sustainable practices through voluntary, cost-share, incentive-based programs. However, they are not an effective substitute for the safety net provided by commodity programs. We must maintain an equitable balance in conservation and commodity spending for the development of new farm policy. Furthermore, we support eligibility provisions for conservation programs that are as consistent as possible with commodity eligibility provisions.

Continuation of an adequately funded export promotion program, including the Market Access Program (MAP) and Foreign Market Development (FMD) Program, are important in an export-dependant agricultural economy. It also is valuable to maintain a WTO-compliant export credit guarantee program. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets—but the public-private partnerships facilitated by the MAP and FMD programs, using a cost-share approach, have proven highly effective and have the added advantage of being WTO-compliant.

Mr. Chairman, cotton farmers continue to be disappointed by the very overt effort in the WTO Doha negotiations to isolate cotton to squeeze even more concessions from the U.S. The U.S. proposal on agriculture was ambitious and has not received an adequate response from the EU, the G20, or most significantly, China. The elimination of the Step two program and the significant modification of the export credit guarantee program have also failed to elicit positive responses—despite the negative impact on U.S. cotton exports caused by these two changes.

It sometimes seems that the WTO process is convincing other countries they can now dictate U.S. farm policy. Stunningly, an Argentine Government official recently derided the Secretary's farm bill proposal, saying the Secretary's proposal was moving in the wrong direction and would not make them happy with respect to cotton. He obviously read the USDA press release accompanying their farm bill proposal that said direct payments for cotton would be increased by 65% and did not note the precipitous decline in the cotton loan rate. While the NCC does not like all aspects of the Administration's proposal, I, for one, do not want Congress writing U.S. farm policy to make Argentine ministers happy. And I trust that is not the goal of our trade negotiators. Our purpose should be to develop policy that is beneficial to U.S. farmers and ranchers while tailoring that policy to minimize trade-distorting elements.

Further, despite the changes made in the U.S. cotton program and despite the very significant offer on domestic support tabled by the Administration, the WTO held another special session on cotton at the request of West African countries just weeks after the Doha round was restarted. While many of the presentations at that meeting were directed to developmental discussions, it is our understanding that developing countries that produce cotton again ignored the efforts being made by the United States, both in trade policy and on the developmental front, and used the WTO session as a platform to attack the U.S. cotton program. These countries want elimination of the U.S. cotton program, and they want the WTO to pay them $400 million in compensation.

Mr. Chairman, I must stress again that the U.S. has responded over and over to requests for reform and to requests for assistance. The Step two program was terminated at the end of the 2005 marketing year, and the negative impacts are being felt by producers of the 2006 crop. Furthermore, the export credit guarantee program has undergone significant revision, and I have already mentioned the significant agricultural offer tabled by the United States. I have not, however, mentioned that the U.S. committed to end all export subsidies for cotton by the end of 2006 and has complied with that promise even though we did not have to.

The U.S. has also responded to the very real needs of African countries. Two of the four African countries that initially targeted U.S. cotton have submitted qualified proposals and received significant promises of assistance under the Administration's Millennium Challenge. According to the WTO's table of assistance, Benin and Mali have received commitments from the U.S. totaling over $750,000,000. This level of assistance amounts to almost 20¢ per pound on all cotton produced in these two countries, annually, over the next 6 years. This level of directed support actually dwarfs the compensation being sought through the WTO. Sadly, however, U.S. officials have stated that these governments are devoting very little of these funds directly to the cotton sector.

The U.S. is providing the means to assist cotton farmers in Benin and Mali, but their own governments are not taking full advantage of our generosity. Instead, they demand high-level cotton sessions in Geneva and continue to brow-beat the WTO looking for more and more inequitable concessions on cotton.

Mr. Chairman, U.S. negotiators must send a clear signal that enough is enough. The U.S. should not continue to provide more concessions (often unilateral) while receiving virtually no positive indications from our trading partners that they will also move down the trade liberalization road. The strong stand by the U.S. in Geneva last July was fully appropriate. Unfortunately, the U.S. seems to have been apologizing ever since. The U.S. must not make additional concessions on domestic support until our market access objectives are met and exceeded. The U.S. should not agree to a Doha result that effectively exempts China—the fastest growing economy in the world—from concessions. The U.S. should not make further inequitable concessions on cotton beyond those made in Hong Kong.

The Secretary frequently cites the Brazil cotton case as evidence that the U.S. farm law must be changed in order to be unchallengeable. The truth is that U.S. farm law can always be challenged under current WTO rules and there are no concrete signs that a new farm bill or a new Doha Agreement will change this.

Mr. Chairman, I would like to make some brief comments about our concerns with sluggish U.S. cotton sales, high levels of cotton under loan and persistently low prices. Total export commitments to China for the 2006–2007 marketing year stand at only 1.5 million bales, down 5.2 million bales from last year's number of 6.7 million bales. U.S. exports to other buyers in Asia are also off from last year's pace, but to a lesser extent. At this point last year, other key Asian countries had purchased 2.1 million bales of U.S. cotton. In the current marketing year, they've committed to 1.8 million bales, a drop of about 10%.

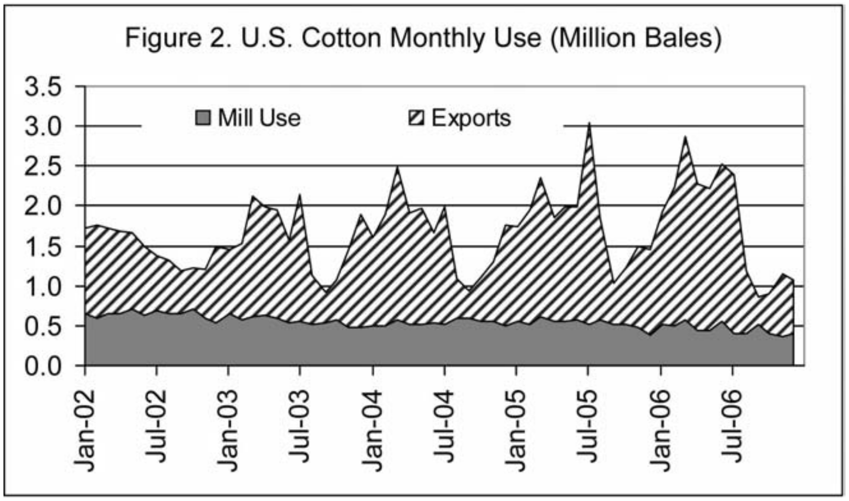
It is the case that cotton still under loan is above the levels observed at this same time in past marketing years. As of mid-March, there were 11.3 million bales of the 2006 crop of upland cotton still under loan. In recent years, cotton under loan in March averaged about 4.0 million bales. However, it is very important to note that 6.5 million bales of the 2006 crop have already been redeemed from the marketing loan. This suggests that the loan is not the market of last resort and that cotton is not locked in the loan. Simply put, there is more cotton in the loan because of the lack of demand from key export markets. When demand improves, cotton will move out of the loan to satisfy that demand.

Instead of assigning undue blame for the current market situation to the marketing loan, it is better to focus on the number of reasons why U.S. export sales have been lagging. First, as I previously mentioned, the loss of the Step two program has hurt the competitiveness of U.S. cotton. The U.S. has a smaller presence in the world market as a result of the loss of Step two. Second, subsidies, trade restrictions, and other actions are having significant impacts on world cotton trade and prices—and frankly, are having a much greater impact than the remaining provisions of the U.S. cotton program. This second point is well supported by several statements made by USDA analysts in their report prepared for the recent USDA Outlook Conference.

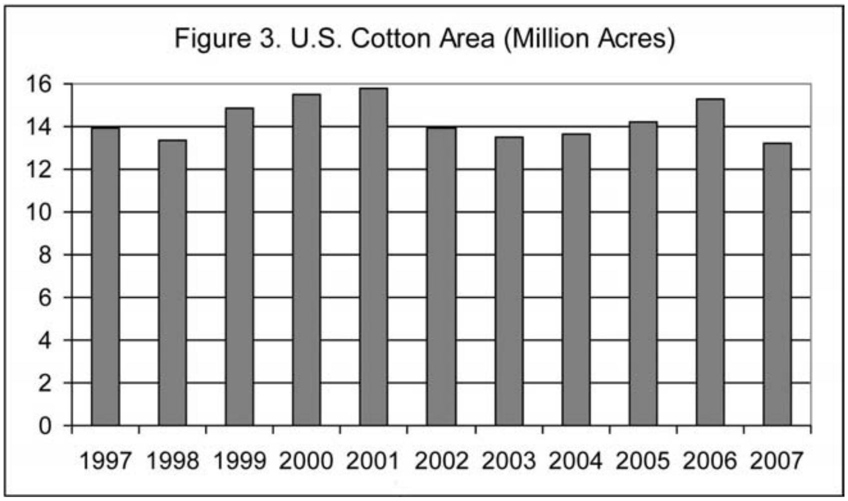
> *"A combination of moderately higher world production and sharply highly world consumption is reducing world stocks for the 2006–2007 season. Significant increases in production for China, India, Brazil and Turkey will more than offset reduced production in the United States, Australia, Greece and Syria."*
>
> *"For India, both area and yields rose in 2006–2007 from the year before, as the ongoing adoption of genetically engineered Bt cotton continued transforming cotton authorization across the country. Since much of the Bt cotton planted in India is illegal, estimates of the extent of Bt adoption vary widely."*
>
> *"Higher production is also expected in Pakistan in 2007–2008 as more normal weather and the spread of Bt cotton boosts yields. Commercial cultivation of Bt cotton is not legal in Pakistan, but has reportedly spread to several 100,000 hectares."*
>
> *"Production in West Africa's Franc Zone in 2007–2008 is likely to be about unchanged compared with the year before cotton prices were higher in U.S. dollar terms during the first half of marketing year 2006–2007, but for the Franc Zone, this was offset by the strength of the Euro versus the U.S. dollar. A rebounding EU economy drove the Euro eight percent higher with respect to the dollar, and the CFA Franc is linked to the Euro."*
>
> *"China imported a record 19.3 million bales in 2005–2006; however, imports for the first half of the current season have fallen well short of the year ago level. The primary factor slowing the pace of imports appears to be government-imposed import quotas, which have been more restrictive thus far this season than last. In January 2007, the WTO TRQ of 894,000 tons (4.1 million bales) was released; however, because a portion of the quota is reserved for state enterprises, it has not all been allocated to mills."*
>
> *"China has used a sliding scale import duty on non-WTO TRQ imports that attempts to assure a minimum import price to help support the domestic price for cotton."*
>
> *"The apparent goal of the more restrictive import policies is to use domestic cotton first before allowing significant imports. The government imposed constraints on imports have made it difficult to ascertain the underlying demand from the world's largest cotton consumer, and importer; thus in turn, has resulted in unusual uncertainty for the world cotton market."*

> *"The [U.S.] cotton product trade deficit in 2006 expanded to a record 18.1 million bale equivalents, more than double the trade deficit of just 8 years ago. During 2006, U.S. cotton textile and apparel imports reached the equivalent of 22.8 million bales of raw cotton, four percent above 2005. In contrast, cotton product exports decreased slightly to 4.7 million bale equivalents in 2006, and now account for 86 percent of U.S. cotton mill use compared with 55 percent in 2002."*
>
> *"China's extensive and complex system of import quotas and government cotton reserves has limited the correlation between price movements in China and the rest of the world in 2006–2007."*
>
> *"Subsidies to cotton producers are also being put in place in China, and the Government has frequently intervened in local markets, buying cotton for the government's reserves."*
>
> COTTON OUTLOOK, *Vol. 85 No. 10 March 9, 2007 pg. 7*
>
> *". . . Beijing has announced a subsidy for the purchase of good quality planting seed . . . this is part of an overall package for agriculture valued at 8.87 billion Yuan . . . a massive increase of 48.6 percent over last year . . . for cotton, farmers in eight regions will benefit . . . the funds earmarked will be sufficient to pay the subsidy on 40 percent of prospective plantings."*

Mr. Chairman, as previously noted, export markets account for approximately 75% of total disappearance of U.S. cotton. Exports, and subsequently total use, can be highly variable, particularly within the marketing year (Figure 2). The industry recognizes the pressures that a highly-variable demand situation can place on the storage and distribution system. Through cooperation with USDA, the cotton industry is working to improve the flow and efficiency of the system to ensure that we remain the supplier of choice to the world cotton market. In a market environment with a high level of variability and uncertainty, I will reiterate the importance of the safety net provided by an effective farm program. The farm program provides the necessary stability to make the long-term investments that will keep the industry competitive and productive.



I will conclude my testimony by apprising the Committee of the Council's assessment of U.S. cotton acreage. In recent years, cotton acreage in the U.S. has fluctuated between 13.5 and 15.5 million acres as farmers have adjusted acreage based on agronomic practices and relative returns between cotton and competing crops. For this year, we fully expect that the surge in corn and soybean prices will cause producers to adjust their crop mix, and cotton acres will decline. The Council's acreage survey, conducted in late December and early January, reported cotton acreage intentions at 13.2 million acres—a 14% decline from last year's level (Figure 3). Of course, since the time of the survey, corn and soybean prices have increased further, and the actual cotton acreage decline will likely be even greater. This year's acreage adjustments are a clear indication that planting flexibility works and farmers are responding to market signals.



Mr. Chairman, thank you for the opportunity to testify today. I will be pleased to respond to your questions.

The CHAIRMAN. Thank you. And Mr. McCauley, before you start, let me just acknowledge that the Chairman of the Committee has arrived. Mr. Peterson, thank you. Any comments you want to have before we——

Mr. PETERSON. No. Carry on.

The CHAIRMAN. Okay. Mr. McCauley.

STATEMENT OF KEN McCAULEY, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION; CORN AND SOYBEAN FARMER, WHITE CLOUD, KS

Mr. McCAULEY. Thank you, Mr. Chairman, Ranking Member Moran, and Members of this Subcommittee. On behalf of the National Corn Growers Association, I appreciate this opportunity to present our members' recommendations for the 2007 Farm Bill commodity title. My name is Ken McCauley, President of the National Corn Growers Association. I farm in White Cloud, Kansas with my wife and son, producing corn and soybeans. The National Corn Growers Association represents more than 32,000 corn farmers from 48 states. NCGA also represents more than 300,000 farmers who contribute to the corn check off programs, and 26 affiliated state corn organizations across this Nation.

First, it is important to note that NCGA has supported the 2002 Farm Bill for the improvements it made to our nation's agricultural policy. In short, the 2002 Farm Bill implemented the right policy for that time. Looking forward, though, today's farm safety net is simply not designed to meet our producers' long-term risk management needs, given the dynamic changes underway in U.S. agriculture. NCGA has developed a proposal to reform our commodity program supports, change that would help ensure better protection against volatile commodity prices, significant crop losses, and would provide a permanent disaster assistance.

Earlier this month, our delegates voted in strong support of "county-based revenue counter-cyclical program integrated with

Federal crop insurance for corn and potentially other commodities." Extending the current farm bill would do nothing to address the flaws that NCGA has noted since the summer of 2002. Too many farmers have learned the hard way that today's farm supports may be effective when market prices are low, but when yields are low, the income protection has been less than adequate.

Changes in the corn industry have created many new opportunities for producers. Projected prices for corn and other major commodities indicate that current Marketing Loan Assistance Program and Counter-Cyclical Program will provide, at best, minimal support over the next 5 years. NCGA's proposal reflects the views that the time has arrived to adopt fundamental changes in our programs. The Congress has a unique opportunity to consider major reforms at a time when prices are strong for most crops and exports are expected to reach a record $77 billion in 2007. And thanks to continued support from the Congress, renewable energy from homegrown crops can now play a much larger role in enhancing the country's energy security.

NCGA proposes replacing the existing Marketing Loan Program and nonrecourse Marketing Loan Program with programs that would provide more cost-effective risk management tools. Rather than low target prices, the new Marketing Loan Program, or RCCP, would make payments when a county's actual crop revenue is less than the expected revenue. In most years, RCCP payments would be triggered by the same thing, crop losses that lead to the great majority of crop insurance indemnity payments. The RCCP would be integrated with Federal crop insurance to minimize overlapping coverage and to ensure a more effective, cost-efficient farm safety net. With insurance companies only paying for losses not covered by the RCCP, the indemnities paid to farmers would be reduced, enabling them to provide individual revenue insurance at higher coverage levels. Our analysis indicates that the voluntary paid premiums of buy-up revenue insurance policies should drop significantly. Another advantage to this approach is that it would provide a standing disaster program by automatically providing payments to all farmers in counties that suffer low crop revenue, thus saving almost $1.8 billion annually on ad hoc disaster aid.

The final component of NCGA's proposal is to change the nonrecourse loan to a recourse loan program, a reform that would significantly increase the market orientation of U.S. farm policy. A recourse loan would continue to give producers harvest time liquidity, which increases their ability to market their crop at a more profitable time. NCGA believes that the time is right for introducing these reforms and urges Congress to provide the necessary resources to take advantage of this opportunity. Integration of the RCCP with Federal crop insurance creates efficiencies in delivering individual revenue protection policies. At a 95 percent expected county revenue trigger and a 2 year transition period, this new safety net is projected to add no more than $500 million to the CBO's March baseline. NCGA recommends a cap on prices used to determine county trigger revenues and proposes to set projected crop prices using a straight 3 year average of the revenue insurance prices. At these levels of protection, we are confident of our proposal's potential for long-term savings and promise as a superior farm safety net.

Mr. Chairman, NCGA stands ready to work with you as you begin crafting a new farm bill. Our growers appreciate the difficult task before you and your continued support of our industry. I thank you again for this opportunity to discuss our goals and priorities and look forward to any questions you might have. Thank you.

[The prepared statement of Mr. McCauley follows:]

PREPARED STATEMENT OF KEN MCCAULEY, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION; CORN AND SOYBEAN FARMER, WHITE CLOUD, KS

Mr. Chairman, Ranking Member Moran and Members of the Subcommittee, on behalf of the National Corn Growers Association (NCGA), I appreciate this opportunity to present for your consideration our members' views and recommendations for the 2007 Farm Bill commodity title.

My name is Ken McCauley, President of NCGA. I am from White Cloud, Kansas and farm with my wife and son producing corn and soybeans.

The National Corn Growers Association represents more than 32,000 corn farmers from 48 states. NCGA also represents more than 300,000 farmers who contribute to corn check off programs and 26 affiliated state corn organizations across the nation for the purpose of creating new opportunities and markets for corn growers. As we celebrate our 50th anniversary, our members are mindful of their predecessors' forward looking planning, their accomplishments and the value they placed on NCGA being a grassroots organization. That heritage as a grassroots organization remains very much alive and is reflected in the farm bill proposal that we bring forward today.

First, it is important to note that NCGA has recognized and supported the 2002 Farm Bill for the improvements it made to our nation's agricultural policy, particularly the strengthening of the farm safety net. The introduction of a new counter-cyclical payment program with an option for producers to update their base yields marked a positive step toward delivering more targeted and timely assistance to producers during periods of low prices. Combined with the marketing assistance loan program, most producers have been in a much better position for long term planning, including investments in ethanol production and producer owned value added business opportunities. In short, the 2002 Farm Bill implemented the right policy for that time.

Looking forward, though, today's farm safety net is simply not designed to meet our producers' long term risk management needs given the dynamic changes underway in U.S. agriculture, and particularly in the corn industry. Following 2 years of study, cost analysis and considerable input from our state associations, NCGA's Public Policy Action Team developed a proposal to reform our commodity support programs; changes that would help ensure better protection against volatile commodity prices, significant crop losses, and would provide permanent disaster assistance. Earlier this month, our delegates voted in strong support of a "county based revenue counter-cyclical program integrated with Federal crop insurance for corn, and potentially other commodities." NCGA's proposal is designed to increase the market orientation of the commodity title, enhance the targeting of farm support so that payments arrive when farmers most need assistance and increase the efficiency with which taxpayer dollars are spent supporting agriculture.

Although projections of higher commodity prices, alone, present a strong case for a revenue based farm program, it is producers' experience with drought and other adverse weather conditions in isolated areas that have drawn our attention to what some economists have referred to as a hole in the current safety net. Under these circumstances, growers have been unable to fully benefit from higher market prices and cannot depend on counter-cyclical payments at a fixed target price to reduce the adverse impact of lost income. For those farmers who have experienced large crop losses or repetitive years of less severe or shallow losses during the recent years of record harvests and low prices, the combined support of marketing loan deficiency payments and counter-cyclical payments have provided insufficient income protection which has led to the need for recurring disaster assistance. Revenue protection from Federal crop insurance protection can certainly soften the financial blow, but the premiums for these policies rise significantly at the higher levels of coverage.

Most producers would agree that the commodity support programs in the 2002 Farm Bill have served them well. Extending these programs, though, would do nothing to address the flaws NCGA has noted since the summer of 2002 or the potential solutions we have recommended. Again, too many farmers have learned the hard way that today's farm supports may be effective when the market price is low, but the income protection available when yields are low has proven to be less than adequate. A well designed revenue based program can deliver protection against low prices or low yields.

As you well know, the changes in the corn industry, driven largely by a growing ethanol industry have created many new opportunities for producers, our rural communities and the many businesses that are critical to our success. Projected market prices for corn and other major commodities from both the Congressional Budget Office (CBO) and the Food and Agricultural Policy Research Institute forecast that the current marketing loan assistance program and counter-cyclical program will provide minimal, if any, meaningful support over the next 5 years. The CBO, in fact, has scored the level of spending for loan deficiency payments ranging from $7 million in 2008 to just $30 million in 2012. A very similar level of outlays is forecast for counter-cyclical payments. These projections, along with the expansion of planted acres for corn, have reinforced the need for NCGA and affiliated state associations to investigate an alternative safety net that enables producers to better manage their risks.

NCGA's commodity title proposal reflects the view that the time has arrived to adopt fundamental changes in our programs that would strengthen our competitiveness and enhance the long term viability of U.S. farmers. The United States Congress has a unique opportunity to consider major reforms at a time when prices are strong for most crops and exports are expected to reach a record $77 billion in 2007. Equally impressive is that U.S. agriculture can celebrate the lowest debt-to-asset ratio in recorded history, approximately 11 percent for 2006. And thanks to continued support from the Congress, renewable energy from home grown crops are now playing a much larger role in enhancing the country's energy security.

To provide a better safety net for producers, NCGA proposes replacing the existing counter-cyclical program, loan deficiency payments and the nonrecourse marketing loan program with programs that would provide more comprehensive and cost effective risk management tools. Direct payments would continue to provide a foundation of support. Rather than target low prices, the new Revenue Counter-Cyclical Program would make payments when a county's realized crop revenue is less than a crop's trigger revenue. When the actual per-acre revenue falls below the per-acre trigger revenue, producers would be compensated for the difference. I need to emphasize that a farm's total payment would equal the per-acre payment multiplied by planted acres rather than base acres as is the case with today's price triggered program. This county based program is very similar to Group Risk Income Protection (GRIP), a product currently offered through the Federal crop insurance program. Similar to GRIP, the proposed RCCP trigger revenue for a county would equal the product of RCCP coverage level, the expected county yield and the projected price level. The harvest price and a crop's actual county yield reported by NASS (National Agricultural Statistic Service) would determine the actual county revenue. However, RCCP would not include a Harvest Revenue Option which can increase payments if the harvest price is greater than the projected price.

In most years, RCCP payments would be triggered by the same events that lead to the great majority of crop insurance indemnity payments: droughts, excessive or inadequate heat, excessive rain, or widespread disease related losses. Hail, wind damage or local flooding may also cause losses at the farm level, but not enough toward county losses to trigger RCCP payments. NCGA recognizes the potential for overlapping coverage with RCCP and crop insurance. Consequently, NCGA proposes to integrate RCCP payments with the Federal crop insurance program to create a more effective and cost efficient farm safety net.

The integration of these core programs would provide a first line of revenue protection, reducing price risk and widespread production risk now borne by private insurance companies. By making sure the companies only pay for losses not covered by the RCCP, the indemnities that insurance providers pay farmers would be significantly reduced enabling them to provide individual revenue insurance at higher coverage levels. Analysis provided to NCGA indicates that the farmer paid premiums of buy-up revenue insurance policies would drop significantly through the rerating of insurance products by the Risk Management Agency.

Integration of RCCP and crop insurance would establish a floor under farm revenue. In some years, though, farmers could receive RCCP payments when farm level crop losses are not severe enough to trigger insurance payments. In this situation, farm revenue would remain above the floor level. There could also be years farmers sustain farm level losses, yet would not receive any RCCP payments. Individual insurance would cover their losses and farm revenue would be brought up to the floor level. Participation in the crop insurance program would remain voluntary leaving the choice to producers to supplement the RCCP with insurance for farm level losses or accept the risk that the county level losses would not cover individual crop losses.

The NCGA proposal through RCCP adopts an alternative approach that offers the advantage of providing savings for farmers wanting to purchase crop insurance while reducing the financial risks of the private insurance industry. We believe this change offers the potential of further strengthening the private-public partnership by making sure that most private insurance companies survive even through the heavy loss years. Another advantage to this direct approach is that it would provide a standing disaster program for farmers who grow program crops. Unlike the uncertainty and protracted delays that are now the norm for agriculture disaster assistance, RCCP would automatically provide payments to all farmers in counties that suffer low revenue. This change, alone, would help to ensure a more equitable and sensible delivery of aid than the antiquated crop disaster assistance formula which does little to fill the gaps in today's farm safety net.

The final component of NCGA's proposal is to change the nonrecourse loan program to a recourse loan program, a reform that would significantly increase the market orientation of U.S. farm policy. A recourse loan would continue to give producers harvest time liquidity which increases their ability to market their crop at a more profitable time. Although the farmer's last resort option to sell a crop to USDA would no longer be available, a recourse loan program would create incentives for producers to actively market their crop into the private sector.

Recognizing the challenges before this Committee to write a commodity title under the current fiscal constraints, I now want to turn to the subject of funding. As I stated earlier, NCGA believes the time is right for introducing these proposed reforms and we urge the Congress to provide the necessary resources to take advantage of this opportunity. Specific to the projected outlays, this integration of a county revenue counter-cyclical program (RCCP) with Federal crop insurance extracts cost efficiencies from lowering the costs of delivering individual revenue protection policies and as well as spending offsets from replacing the current nonrecourse marketing loan program and the price triggered counter-cyclical program. In addition, a county based RCCP modeled after the Group Risk Income Protection insurance policy, provides producers permanent disaster assistance less costly than the ad hoc crop disaster aid programs that have averaged near $1.8 billion on an annual basis. Assuming a level of 75 percent buy up individual revenue insurance, a county revenue guarantee at a coverage level of 95 percent of projected price and a 2 year implementation delay of a 5 year farm bill, the annual cost of the NFSA is projected at approximately $500 million above baseline. To be prudent in the use of public funds, NCGA recommends implementation of a cap on projected prices used to determine trigger revenues. One option would be to base the cap on a multiplier of loan rates adjusted for basis and historical season average prices. To reduce the effects of market volatility on the program and to provide greater predictability to producers, NCGA proposes to establish projected crop prices as the average of the current year's revenue insurance price and the previous 2 year's prices. Given the improvements in the farm safety net that I have outlined and our confidence in the potential for long term savings, NCGA believes its proposal offers a viable policy alternative for your consideration.

Mr. Chairman, NCGA stands ready to work with you and your colleagues in the weeks and months ahead as you begin crafting a new farm bill. Our growers appreciate the difficult task before you and your continued support of our industry. I thank you again for this opportunity to appear before this Subcommittee and discuss our goals and priorities.

The CHAIRMAN. Thank you, Mr. McCauley. Mr. Gertson.

STATEMENT OF PETER D. "DAN" GERTSON, JR., CHAIRMAN, U.S. RICE PRODUCERS ASSOCIATION; RICE FARMER, LISSIE, TX; ON BEHALF OF USA RICE FEDERATION

Mr. GERTSON. Thank you. Good morning, Chairman Etheridge, Ranking Member Moran, Mr. Peterson and Members of the Subcommittee. I am Dan Gertson, a rice farmer from Lissie, Texas. I am the Chairman of the U.S. Rice Producers Association. I have been farming rice for 50 years and I am blessed to have four sons, two son-in-laws and one grandson, who I have helped begin farming as well. I am pleased to appear today on behalf of both the USA

Rice Federation and the U.S. Rice Producers Association. Our grain represents the grain that feeds half the world. It sustains life in half the population of the world.

The rice industry strongly supports the continuation of the current farm program, with a three-prong safety net of a nonrecourse Marketing Loan Program, Direct Payment Program and Counter-Cyclical Program. These programs have worked as designed, to ensure a safety net for producers. When prices increase, program expenditures decline because less support is needed.

Rice program support levels: U.S. farm policy will have saved about $25 billion since passage of the 2002 Farm Bill. As a result, the commodity program budget baseline, according to the Congressional Budget Office, has gone down by about 43 percent since 2002. At the same time, input and production costs for rice producers have gone up by more than 42 percent. Under current law, the loan rate for rice is set at a national average rate of $6.50 per hundredweight of rice. The loan rate for rice has remained unchanged since 1989. Since the enactment of the 2002 Farm Bill, the support provided by the rice loan compared to the variable cost of rice production has gone down by a whopping 33 percent. This represents a greater and effective reduction in the support level for rice than for any other program cost since 2002 and is now lower than for any other program crop. The falling value of program support in the face of rising production costs is why we are seeking a very modest increase in our rice loan rate from the current level of $6.50 per hundredweight to $7.50 per hundredweight. We are also seeking a 50¢ increase in the target price to $11 per hundredweight.

Loan rates by class: There are currently three distinct loan rates for rice by class that are set by USDA for each crop year. There is long grain, medium grain and short grain rice. The average of these three loan rates must equal the $6.50 per hundredweight national average. There has been a differential between the loan rates for several classes of rice, even though the loan rate has been set at one single level for all rice in the farm bill. We believe that the rice loan rate should be set at the same level for all classes of rice, long, medium and short grain. We urge this Committee, as you draft the farm bill, to include language directing USDA to set the national loan rate for each class of rice at the same level as established by the farm bill, with the only adjustment continuing to be reflective of milling yields. There should be no further loan rate differentials by class or location.

Adjusted world price calculation for rice: Many in the industry are also concerned with the current black box methodology and formula used by USDA in calculating the adjusted world price for rice. The adjusted world price largely determines the level of loan program benefits, if any, provided to the producers, based on the world price for rice. We believe by putting in place a transparent and verifiable formula and method for calculating the average world price for rice, producers and others in the industry will have a greater confidence in the process. We look forward to working with the Committee to include legislative language in the farm bill, and the industry consensus, to bring much needed transparency to this process.

U.S. Department of Agriculture proposal: It is unfortunate that many of the changes to the farm bill proposal developed by USDA, particularly in the commodity title, would weaken the safety net the farm bill is intended to provide. The proposal to set loan rates based on previous 5 year Olympic average prices and to include a loan rate cap, but not a floor, would be especially damaging. The proposed adjusted gross income rule would make U.S. farm policy unpredictable, inequitable, and punitive for American farm and ranch families, especially tenant and beginning farmers and ranchers. We urge you to oppose these provisions of the USDA farm bill proposal.

The rice industry supports the continuation of the basic commodity programs structure, with a modest improvements outlined above. I would be pleased to respond to any questions.

[The prepared statement of Mr. Gertson follows:]

PREPARED STATEMENT OF PETER D. "DAN" GERTSON, JR., CHAIRMAN, U.S. RICE PRODUCERS ASSOCIATION; RICE FARMER, LISSIE, TX; ON BEHALF OF USA RICE FEDERATION

Introduction

Good morning, Chairman Etheridge, Ranking Member Moran, and Members of the Subcommittee.

I am Dan Gertson, a rice farmer from Lissie, Texas and the Chairman of the U.S. Rice Producers Association. I have been farming rice for 50 years, and I am blessed to have four sons and two sons-in-law who I have helped begin farming as well.

I am pleased to appear today on behalf of both the USA Rice Federation and the U.S. Rice Producers Association.

Mr. Chairman, we thank you for holding this hearing and for the opportunity to express our views on the farm bill.

The U.S. rice industry supports maintaining an effective farm safety net that includes the marketing assistance loan program, counter-cyclical and direct payments, and planting flexibility.

Farm Bill Budget

We would like to thank Chairman Peterson, Ranking Member Goodlatte and Members of the Agriculture Committee for the bipartisan effort they have made to obtain additional budget resources to help in developing the best farm policy possible. We are well aware of the difficult budget situation we are facing, but also fully agree with the position taken by the Committee in its budget views and estimates letter sent to the House Budget Committee.

The fact is that U.S. farm policy will have saved about $25 billion since passage of the 2002 Farm Bill. As a result, the commodity program budget baseline according to the Congressional Budget Office has *fallen* by about 43 percent since 2002. At the same time, input and production costs for rice producers has *risen* by more than 42 percent since 2002. As such, the Agriculture Committees should be given some credit for this savings and provided an additional budget allocation for maintaining a farm program safety net in the farm bill.

We recognize the many competing interests that must be considered when assembling a farm bill. New needs have been identified since passage of the 2002 Farm Bill. However, the safety net we have today is still vitally important to farmers and rural America—as important as when the 2002 Farm Bill was written.

Commodity Programs

Overall, the rice industry strongly supports the continuation of the current farm programs within the commodity title of the farm bill. We believe the structure of the three-prong safety net of a nonrecourse marketing loan program, direct payment program and counter-cyclical program are working as designed to ensure a safety net for producers. When prices increase, program expenditures decline because less support is needed. This has resulted in the approximately $25 billion in actual and projected savings from the commodity programs over the course of the 2002 Farm Bill.

Payment Limitation Policies

The U.S. rice industry opposes any further reduction in the payment limit levels provided under the current farm bill. We also oppose any government policies that attempt to "target" payments or apply a means test for agricultural production payments. Payment limits have the negative effect of penalizing viable family farms the most when crop prices are the lowest and support is the most critical. To be a viable family farm, we must use economies of scale to justify the large capital investment costs associated with farming today. It is essential that rice producers maintain eligibility for all production to the nonrecourse loan program. Arbitrarily limiting payments results in farm sizes too small to be economically viable, particularly for rice, cotton, and peanut farms across the Sunbelt. When the issue of payment limits is brought up, oftentimes opponents of production agriculture attempt to use misleading statistics taken out of context for the purpose of making their argument. Here are some key points that I know we are all probably aware of, but it's important to be reminded of so that we see the real picture of production agriculture.

Statistics skewed by "Rural Residence Farms": "Rural residence farms" as defined by USDA represent about ⅔ of the 2.1 million "farms" in this country. Excluding these farms where farming is not the primary occupation of the family results in a very different picture about the percentage of "farms" receiving farm program payments. The universe of farms actually producing this nation's food and fiber is much smaller than 2.1 million. In fact, 38% of farms produce 92% of our food and fiber and receive 87% of farm program payments.

While we support the overall structure of the current commodity programs, there are some rice specific legislative adjustments within the structure of the programs that are needed to address some issues that have arisen relative to rice.

Rice Program Support Levels

Within the current marketing loan program, the statutory loan rate for rice is set at a national average rate of $6.50 per hundredweight of rice (about 2.22 bushels). The loan rate for rice has remained unchanged since 1989. However, over that time period production costs and operating expenses have increased exponentially and continue to escalate. As a result, since the enactment of the 2002 Farm Bill the support provided by the rice loan compared to the variable cost of rice production has fallen by a whopping 33 percent! In 2002 the rice loan rate represented about 150 percent of the variable cost of producing rice. Today that same loan rate represents only about 100 percent of the variable cost of producing rice. This represents a greater effective *reduction* in the support level for rice than for any other program crop since 2002, and is now *lower than for any other program crop.* As such, we are seeking a very modest increase in our rice loan rate from the current level of $6.50/cwt to $7.00/cwt.

In the 2002 Farm Bill, when the target price and counter-cyclical payment system was established, the target price for rice was set at $10.50/cwt and remains at that level today. Again, due to the continued increase in production costs, we are seeking a $.50/cwt increase in the target price to $11.00/cwt.

Loan Rates by Class

The current statutory loan rate for rice is set at $6.50/cwt, but there are currently three distinct loan rates for rice by class that are set by USDA for each crop year: long grain, medium grain, and short grain. The average of these three loan rates must equal the $6.50/cwt national average set by current statute in the farm bill for rice. Over the course of the marketing loan program operation, there has been a differential between the loan rates for the several classes of rice, while the statutory loan rate has been set at one level for all rice. USDA has recently undertaken efforts to "rebalance" these loan rates by class. We have concerns with the approach being used by USDA in this process. After studying and analyzing the issue we believe that the most appropriate course is to set the loan rate at the same level for all classes of rice—long, medium, and short grain.

Analysis of the impact of the changes proposed by USDA suggests that the modifications would have a significant impact on the rice industry. At first glance, changes in class loan rates would appear to cancel each other out, assuming that the method to report adjusted world prices remains unchanged. If so, the result would basically be a transfer of loan support from long grain rice producers to producers of medium and short grain.

However, these changes in payments could be large enough to generate a round of false market adjustments as producers shift acreage in response to the change in the program and markets react to the resulting larger medium and short grain supplies and smaller long grain supplies. In other words, this new "equilibrium" envisioned by USDA will not have been achieved without causing significant economic pain.

Arriving at a new "equilibrium" between long and medium/short grain loan rates will likely entail significant adjustments along regional lines. Within the long grain sector, the higher cost producers that are already operating at low rates of return would suffer the greatest burden. Losses in revenues would be concentrated in the areas where producers have the lowest ability to take advantage of changes in loan rates by shifting between varieties, such as Missouri, Mississippi, and Texas. Any gains in revenue would be concentrated in California where producers would receive a higher return on their existing production, and the potential to expand more profitable operations.

The current method of setting loan rates by class has allowed for the orderly production and marketing of rice that has provided ample supplies to the market without generating excessive stocks in either the public or private sectors. Although domestic prices for medium grain varieties have over time appreciated at a rate much faster than long grain varieties, much of this increase reflects market forces unique to particular markets and even to particular medium grain varieties.

Therefore, we urge this Committee as you draft the farm bill to include statutory language directing USDA to set the national loan rate for each class of rice at the same level as established by the farm bill, with the only adjustment continuing to be reflective of milling yields. There should be no further loan rate differentials by class or location.

Making such a change to an "all rice" loan rate would, based on the current rice loan rate of $6.50/cwt, result in a slight reduction in the long grain loan rate of $0.09/cwt compared to the 2007 crop loan rate and an increase in the medium grain loan rate of $0.30/cwt and an increase of $0.22/cwt for short grain. Of note, long grain rice accounts for approximately 80% of total rice production, and medium and short grain rice accounts for approximately 20% of total production on average.

Adjusted World Price Calculation for Rice

Many in the industry are also concerned with the current methodology and formula used by USDA in calculating the "adjusted world price" (AWP) for rice. The AWP is set and announced each week by USDA as part of the marketing loan program. The AWP largely determines the level of loan program benefits (if any) provided to producers, based on the world prices for rice adjusted back to U.S. location and quality.

The current process employed by USDA is essentially a "black box" approach that provides little, if any, transparency in the process. This method worked well overall for a number of years after the marketing loan program was first established. However, over the course of the last few years, the AWP as announced by USDA has varied significantly at times from what was believed to be the true price relationships in the world market place. This has reduced U.S. competitiveness in the world market and diminished the producer safety net.

To help address this issue, the industry is working to develop a more transparent formula that would be representative of the prices in the major world rice markets. Such an approach would work in principle similar to the method used for calculating the AWP for cotton, which utilizes a rather specific formula calculation for certain markets.

We believe by putting in place a transparent, verifiable formula and method for calculating the AWP for rice, producers and others in the industry will have greater confidence in the process. It should also help USDA to better calculate the AWP on a weekly basis.

As the several industry producer, processor, and other organizations further define and reach consensus on a proposal for a transparent method of calculating an AWP for rice, we look forward to working with the Committee to include legislative language in the farm bill to bring this much needed transparency to the process.

USDA Proposal

We have reviewed the farm bill Proposal developed by USDA and released in January. While it is clear a great deal of effort went into developing the proposal, it is unfortunate that many of the proposed changes, particularly in the commodity title, would have the damaging effect of weakening and in some cases practically eliminating the safety net the farm bill is intended to provide. However, the USDA proposal does call for an additional $5.0 billion in funding for the farm bill over the next 10 years, which is a positive and necessary part of the farm bill development.

Commodity Title

It is important to note overall that USDA's commodity program proposal recommends maintaining the key components of the safety net—nonrecourse marketing loan program, direct payment program, and counter-cyclical program—although some of the changes within the programs are problematic, as described below.

The proposal to set loan rates based on previous 5 year Olympic average prices and to include a loan rate cap but not a floor would be especially damaging. This would essentially remove any real safety net that the marketing loan program is intended to provide. If market prices for a certain commodity begin to decline and continue that downward trend for several years, the result could be a loan rate significantly below the current loan rate levels. Loan rates should be set in statute at the appropriate level to provide a basic safety net level and not be altered during the life of a farm bill. This level of certainty and predictability is necessary for producers to obtain production financing and make long-term planning decisions.

Also, the proposal by USDA to modify the counter-cyclical program from a price-based trigger to a revenue-based trigger at the national level is also problematic for rice producers and the rice industry. Given the unique nature of rice production, we experience very little variation in yield or production, but can experience significant changes in market prices. Therefore, using market prices as the basis for counter-cyclical payments is important for our industry and something we continue to support. We would note that the justification for this change—helping producers when they have production losses—is not even accomplished by the proposal because producers in an entire region could lose their crop and so long as other producers made their crop and prices were strong, no payment would be made.

The current law adjusted gross income (AGI) provision prohibits commodity program payments from being made to individuals with greater than a $2.5 million AGI, excluding those individuals who earn at least 75% of their income from farming, ranching, or forestry. A major concern with the USDA proposal involves the reduction of the AGI test to only $200,000, and the repeal of the farmer safe harbor for those whose income principally comes from farming, ranching, or forestry.

We believe the idea of means testing for commodity programs in general is bad policy. A farm safety net—no matter how good it may be—is not worth anything to thousands of farm and ranch families if they cannot access it. The AGI proposal unfairly penalizes full time farmers who have diversified and expanded for purposes of achieving economies of scale in order to compete with foreign competitors that enjoy huge subsidies, tariffs, and questionable non-tariff barriers. This rule would injure U.S. farmers and ranchers as they fight to compete on a very lopsided global playing field.

The proposed AGI rule would make U.S. farm policy unpredictable, inequitable, and punitive for American farm and ranch families, especially tenant and beginning farmers and ranchers, as well as lenders, landowners, Main Street businesses, and rural communities.

This provision would also have serious consequences as it relates to rental agreements between landowners and producers. It would force landowners to cash rent their land rather than share production risks with their producer tenants. This will only hurt the "real producers" farming or ranching on the land. Large or wealthy landowners who are the apparent targets of this proposal will not suffer, but will simply cash rent their land to other producers who are likely eligible for program benefits.

The proposed AGI rule also makes it difficult or impossible for lenders to measure with any certainty the future cash flow of farm and ranch families in order to make both short and long term lending decisions. Uncertain whether the producer will be eligible for farm policy benefits, lenders—whether banks, farm credit system institutions, equipment dealers, or others offering business credit—will be unable to estimate producer cash flows with any level of certainty.

It is understandable why this type of rule has not been proposed for conservation programs under the farm bill. Or under the JOBS Bill that helps U.S. manufacturers compete globally. Or for doctors under Medicare. They didn't include this kind of a rule because it would have hurt the cause, not helped it. Similarly, farm and ranch families should not be means-tested out of farm policy based on their AGI because this, too, would undermine a fundamental purpose of farm policy: the provision of the safest, most abundant, most affordable food and fiber supply in the world to the American consumer.

We urge you to oppose the above provisions of the USDA farm bill proposal due to the severe consequences that would result from any one or combination of them. America's farm and ranch families are already facing enough uncertainty and difficulty without unnecessarily weakening the safety net as proposed by USDA.

Conclusion

Overall, the rice industry supports a continuation of the basic commodity programs structure, with the changes referenced above as it relates to rice: (1) Modestly increase the program support levels for rice to a loan rate of $7.00/cwt and a target price of $11.00/cwt.; (2) Set loan rates for all classes of rice at the same level, with no differential by class or location; and (3) Develop and implement a more transparent formula for the calculation of the AWP for rice.

We continue to believe that our current farm programs are a fiscally responsible approach to farm policy and provide a safety net when needed. They have resulted in $25 billion in savings from the estimated costs of the farm commodity programs of the 2002 Farm Bill.

Furthermore, any unilateral reduction of the current programs and funding levels of the farm bill will result in the effective "unilateral disarmament" by the U.S. when it comes to World Trade Organization (WTO) negotiations that the Administration is continuing to pursue. Such action would effectively weaken our negotiating position with other countries. We certainly do not agree that the pending WTO negotiations should dictate or steer our domestic farm policy. Farm policy should be directed by what's best for America's farm and ranch families.

Thank you again for the opportunity to testify and share our views with you as it relates to the commodity provisions of the farm bill and the Administration's farm bill proposal. We look forward to working with this Subcommittee and the full Committee in crafting the strongest farm policy possible to continue to provide an effective safety net for American agriculture.

I would be pleased to respond to any questions at the appropriate time.

The CHAIRMAN. Thank you, sir. Mr. Ostlie, I understand that you and Mr. Russell will share your 5 minutes. Okay, you are recognized. Thank you, sir.

STATEMENT OF RICHARD OSTLIE, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, NORTHWOOD, ND

Mr. OSTLIE. Good morning, Mr. Chairman, Mr. Peterson, and Members of the Subcommittee. I am Rick Ostlie, a soybean farmer from Northwood, North Dakota and President of the American Soybean Association. The ASA appreciates the opportunity to present our views on the commodity title of the 2007 Farm Bill.

Mr. Chairman, ASA previously testified on the 2007 Farm Bill before the full Committee in September of 2006. Our statement at that time was presented on behalf of the National Sunflower Association and the U.S. Canola Association as well as ASA. I am pleased that Mr. Russell from NSA is able to join me here in restating our position today.

Oilseed producer organizations support the basic structure of the 2002 Farm Bill, with some minor adjustments. We believe the three-legged stool that includes a marketing loan, the Marketing Loan Program, direct payments, combined with crop insurance and disaster assistance, can provide an adequate safety net for farmers in years of low prices and reduced production.

I say can because the 2002 Farm Bill establishes target price and marketing loan rates for oilseeds at levels that do not provide an adequate safety net for producers of these crops. They are out of balance with the supports provided to other program commodities. The soybean target price of $5.80 per bushel triggers counter-cyclical payments only when seasonal average prices fall below $5.36. The difference reflects the soybean direct payment of 44¢. We believe that $5.36 per bushel is inadequate in protecting soybean producer income. Prices never fell below the $5.36 level during the past 4 years under the current farm bill. Even if they had, counter-cyclical payments are made on only a fraction of actual production.

They are based on 85 percent of a formula that in many cases uses outdated yields from the early 1980s. This safety net is too low to be meaningful to oilseed producers.

Our proposal is to adjust target prices for all program crops to a minimum of 130 percent of the Olympic average of season average prices in 2000 to 2004. This period was selected because it includes years of both lower prices and higher prices for most commodities. The 130 percent level was selected because it would increase income support for all crops except cotton and rice. Since target prices for these crops under the 2002 Farm Bill are already higher than 130 percent, they would not be affected under our proposal.

At 130 percent, the soybean target price would increase from $5.80 to $6.85 per bushel. Subtracting the 44¢ direct payment, the average effective target price would be $6.41. The target price for canola, sunflower and other so-called minor oilseeds would increase from $10.71 to $14.61 per hundredweight. Considering the target prices for other program crops, we consider these to be adequate and reasonable levels of income support for oilseed producers.

Our proposal would also adjust marketing loan rates to a minimum of 95 percent of the 5 year Olympic average. These adjustments would only marginally affect soybeans. The increase would be only 1¢, from $5 to $5.01 per bushel. However, as Mr. Russell will make clear, marketing loan rates must reflect the market value of commodities. If they are out of sync with each other, planting decisions can be distorted in years when prices at harvest are expected to be near or below loan levels. Some current loan rates do not reflect recent market price relationships between crops, and they must be adjusted.

Mr. Chairman, attached to my written statement is a table showing current and proposed marketing loan rates and target prices for all program crops. Also attached are tables showing the cost of these adjustments for individual commodities, and a table showing the overall cost for all target price and loan rate adjustments of about $900 million per year.

We understand the Subcommittee has limited resources to accommodate this and any changes in the commodity title in the 2002 Farm Bill. However, we strongly believe our proposal is the best way to correct major deficiencies in the Act. We also strongly support making additional resources available from outside the commodity title to make these changes. However, if they are not made available, we encourage you to consider ways to make these adjustments using resources within the commodity title. Thank you very much.

[The prepared statement of Mr. Ostlie follows:]

PREPARED STATEMENT OF RICHARD OSTLIE, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, NORTHWOOD, ND

Good morning, Mr. Chairman and Members of the Subcommittee. I am Rick Ostlie, a soybean farmer from Northwood, North Dakota, and President of the American Soybean Association. ASA appreciates the opportunity to present our views on the commodity title of the 2007 Farm Bill.

Mr. Chairman, ASA previously testified on the 2007 Farm Bill before the full Committee in September 2006. Our statement at that time was presented on behalf of the National Sunflower Association and the U.S. Canola Association as well as

ASA. I am pleased that Mr. Russell from the NSA is able to join me in restating our position today.

Oilseed producer organizations support the basic structure of the 2002 Farm Bill, with some minor adjustments. We believe the “three-legged stool” that includes the marketing loan, the counter-cyclical program, and direct payments, combined with crop insurance and disaster assistance, can provide an adequate safety net for farmers in years of low prices and reduced production.

I say “can” because the 2002 Farm Bill established target prices and marketing loan rates for oilseeds at levels that do not provide an adequate safety net for producers of these crops and are out of balance with the support provided to other program commodities. The soybean target price of $5.80 per bushel triggers counter-cyclical payments only when season average soybean prices fall below $5.36. The difference reflects the soybean direct payment of $0.44. We believe that $5.36 per bushel is inadequate in protecting soybean producer income. Prices never fell below $5.36 during the past 4 years under the current farm bill. Even if they had, counter-cyclical payments are made on only a fraction of actual production—they are based on 85% of a formula that in many cases uses antiquated payment yields from the early 1980’s. This safety net is too low to be meaningful to oilseed producers.

Our proposal is to adjust target prices for all program crops to a minimum of 130% of the Olympic average of season average prices in 2000–2004. This period was selected because it includes years of both lower prices and higher prices for most commodities. The 130% level was selected because it would increase income support for all crops except cotton and rice. Since target prices for these crops under the 2002 Farm Bill are higher than 130%, they would not be affected under our proposal.

At 130%, the soybean target price would be increased from $5.80 to $6.85 per bushel. Subtracting the $0.44 direct payment, the effective target price would be $6.41. The target price for canola, sunflower and other so-called minor oilseeds would increase from $10.71 to $14.61 per hundredweight. Considering the target prices for other program crops, we consider these to be adequate and reasonable levels of income support for oilseed producers.

Our proposal would also adjust marketing loan rates to a minimum of 95% of the same 5 year Olympic price average. These adjustments would only marginally affect soybeans—the increase would only be 1¢, from $5.00 to $5.01 per bushel. However, as Mr. Russell will make clear, marketing loan rates must reflect the market value of commodities. If they are out of sync with each other, planting decisions can be distorted in years when prices at harvest are expected to be near or below loan levels. Some current loan rates do not reflect recent market price relationships between crops, and they must be adjusted.

Mr. Chairman, attached to my written statement is a table showing current and proposed marketing loan rates and target prices for all program crops. Also attached are tables showing the cost of these adjustments for individual commodities, and a table showing the overall cost for all target price and loan rate adjustments of about $900 million per year.

We understand the Subcommittee has limited resources to accommodate this or any other change to the commodity title in the 2002 Farm Bill. However, we strongly believe our proposal is the best way to correct major deficiencies in that Act. We also strongly support making additional resources available from outside the commodity title to make these changes. However, if they are not made available, we encourage you to consider ways to make these adjustments using resources within the commodity title.

Thank you very much.

RICHARD OSTLIE,
President, American Soybean Association.

Attachment

Adjusting Loan Rates to 95% & Target Prices to 130% of 2000–2004 Olympic Average of Prices

Commodity	2000–04 Olympic Average Price	Direct Payment Rate	*04–07 Loan Rate*	Proposed 2008 Loan Rate	% of Olympic Average Price	*04–07 Target Rate*	Proposed 2008 Target Price	% of Olympic Average Price
Wheat (bu.)	$3.19	$0.52	*$2.75*	$3.03	95%	*$3.92*	$4.15	130%
Corn (bu.)	$2.12	$0.28	*$1.95*	$2.01	95%	*$2.63*	$2.75	130%
Soybeans (bu.)	$5.27	$0.44	*$5.00*	$5.01	95%	*$5.80*	$6.85	130%
Cotton (lb.)	$0.4680	$0.0667	*$0.5200*	$0.5200	111%	*$0.7240*	$0.7240	155%
Rice (cwt.)	$5.81	$2.35	*$6.50*	$6.50	112%	*$10.50*	$10.50	181%
Barley (bu.)	$2.47	$0.24	*$1.85*	$2.35	95%	*$2.24*	$3.21	130%
Grain Sorghum (bu.)	$2.05	$0.35	*$1.95*	$1.95	95%	*$2.57*	$2.66	130%
Oats (bu.)	$1.52	$0.024	*$1.33*	$1.44	95%	*$1.44*	$1.97	130%
Minor Oilseeds (cwt.)	$11.27	$0.80	*$9.30*	$10.71	95%	*$10.10*	$14.66	130%
Peanuts (lb.)	$0.205	$0.0180	*$0.18*	$0.195	95%	$0.2475	$0.267	130%

Overall Annual Average Change in Farm Program Costs:

	Baseline
Marketing Loan Program:	
$ Million	160
Percent	11%
Countercyclical Program:	
$ Million	741
Percent	51%
Total:	
$ Million	901
Percent	32%

Change in Cost to Adjust Marketing Loans to 95% of 2000–2004 Olympic Ave. of Prices

	2008	2009	2010	2011	2012	2013
	($ million)					
All Crops	176	158	158	156	157	156
Soybean	5	5	5	6	6	6
Corn	34	29	29	28	31	32
Wheat	66	55	50	44	40	37
Cotton	0	0	0	0	0	0
Rice	0	0	0	0	0	0
Barley	36	35	36	36	37	36
Oats	2	2	1	1	1	1
Peanuts	24	23	26	28	27	27
Sorghum	0	0	0	0	0	0
Minor Oilseeds	10	10	11	13	14	15

Change in Cost of Counter-Cyclical Program to Adjust Target Prices to 130% of 2000–2004 Olympic Average of Prices

	2008	2009	2010	2011	2012	2013
	($ million)					
All Crops	717	689	707	749	774	809
Soybean	395	400	421	468	486	520
Corn	108	92	90	88	93	95
Wheat	82	71	66	60	56	53
Cotton	0	0	0	0	0	0
Rice	0	0	0	0	0	0
Barley	45	44	46	47	50	50
Oats	20	18	17	17	17	17
Peanuts	40	40	40	41	41	41
Sorghum	6	5	5	5	5	4
Minor Oilseeds	21	20	21	24	26	29

Mr. OSTLIE. Mr. Russell?

STATEMENT OF LANCE RUSSELL, PRESIDENT, KANSAS SUNFLOWER COMMISSION; MEMBER, BOARD OF DIRECTORS, NATIONAL SUNFLOWER ASSOCIATION; SUNFLOWER FARMER, HAYS, KS

Mr. RUSSELL. Good morning, Mr. Chairman, Mr. Peterson, and Mr. Moran. My name is Lance Russell. I am a sunflower farmer from Hays, Kansas and I run a diversified farm, growing most of these crops. I am currently the President of the Kansas Sunflower Commission and therefore on the Board of Directors of the National Sunflower Association, and I want to thank you for the opportunity to speak, even though I am in the red button right now.

Anyway, Mr. Chairman, the U.S. sunflower industry has gone through a difficult transition dating back to the late 1970s. At that time, we were seen as a Cinderella crop, with boundless potential for production and demand. In the 1980s, oilseed crops discovered how farm programs can impact production decisions. We lost acres to program crops and became dependent on export subsidies, and later on access to the farm program payments to survive. In the 1990s, our industry took a bold move and decided to take control of our future by building superior oil characteristics into the entire sunflower crop. This was a challenging and costly effort involving producers, feed companies and processors, but we emerged with NuSun sunflowers. NuSun varieties have low linolenic oil profile, making them ideal for use in food products and food service applications that require a healthier oil with higher stability and longer shelf life.

They also require partial hydrogenation in these applications. What that means is they contain no transfats and we know that "transfats" is the big buzz word right now. And following FDA's decision to require transfats to be labeled on food products in 2006 and actions or proposals to eliminate transfats in the food product and manufacturing industry, demand for NuSun sunflowers has exploded. A number of major U.S. and Canadian food companies have switched their formulae to include NuSun in order to avoid transfats. Now, there is more demand for low saturated and stable oils coming from other users. This is an enormous opportunity for our industry, after 25 years of work, to find our place in the oils market and we don't want to lose it. Moreover, if we are to meet the consumers' demands for healthier oils, we must assure an adequate and stable supply of sunflower seed oil.

Mr. Chairman, sunflower support levels under the current farm program present one of the biggest obstacles in our ability to respond to market demand. Our marketing loan rate of $9.30 per hundredweight is only 82 percent of the Olympic average of season average prices between 2000 and 2004. The loan rates for commodities that compete with sunflower are much higher. Soybean is 95 percent; corn, 92; wheat, 86; and dry peas at 120 percent. As a result, sunflower has lost 47 percent of our acreage since 1998 and 1999, dropping from 3½ million to 1.9 million acres, even as market demand has called for a major increase in sunflower production.

Sunflower and other minor oilseeds were also discriminated against when target prices were established in the 2002 Farm Bill. The minor oilseed target price of $10.10 per hundredweight is 80¢ higher than our $9.30 loan rate. But since our direct payment is also 80¢, the effective target price is still the same, at $9.30, identical to the loan rate. There is no way counter-cyclical payments can be triggered for minor oilseed producers.

Together with the other oilseed organizations, we strongly support adjusting marketing loan rates to a minimum of 95 percent of the Olympic average of prices in 2000 to 2004, and target prices to a minimum of 130 percent of the same price average. It is absolutely critical that these adjustments be made in the 2007 Farm Bill if our industry is going to survive and be able to take advantage of the opportunities that we have helped to create and which we have before us today. Thank you for your consideration.

[The prepared statement of Mr. Russell follows:]

PREPARED STATEMENT OF LANCE RUSSELL, PRESIDENT, KANSAS SUNFLOWER COMMISSION; MEMBER, BOARD OF DIRECTORS, NATIONAL SUNFLOWER ASSOCIATION; SUNFLOWER FARMER, HAYS, KS

Good morning, Mr. Chairman and Members of the Subcommittee. I am Lance Russell, a sunflower farmer from Hayes, Kansas. I currently serve as President of the Kansas Sunflower Commission, and on the Board of Directors of the National Sunflower Association. Thank you for the opportunity to appear before you today.

Mr. Chairman, the U.S. sunflower industry has gone through a difficult transition dating back to the late 1970's. At that time, we were seen as a Cinderella crop, with boundless potential for production and demand. In the 1980's, oilseed crops discovered how farm programs can impact production decisions. We lost acres to program crops, and became dependent on export subsidies and, on later access to farm program payments, to survive.

In the 1990's, our industry decided to take control of our future by building superior oil characteristics into the entire sunflower crop. This was a challenging and costly effort involving producers, seed companies and processors, but we emerged with NuSun sunflower. NuSun varieties have a low linolenic oil profile, making them ideal for use in food products and food service applications that require a healthier oil with higher stability and longer shelf life.

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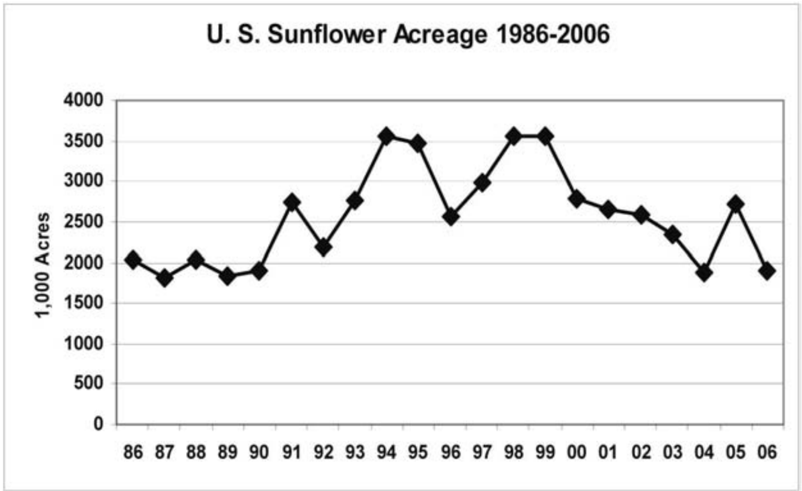

Sunflower and other minor oilseeds were also discriminated against when target prices were established in the 2002 Farm Bill. The minor oilseed target price of $10.10 per hundredweight is $0.80 higher than our $9.30 loan rate. But since our direct payment is also $0.80, the effective target price is $9.30—identical to the loan rate. There is no way counter-cyclical payments can be triggered for minor oilseed producers.

Together with the other oilseed organizations, we strongly support the adjusting marketing loan rates to a minimum of 95 percent of the Olympic average of prices in 2000–2004, and target prices to a minimum of 130 percent of the same price average. It is absolutely critical that these adjustments be made in the 2007 Farm Bill if our industry is going to survive and be able to take advantage of the opportunities we have helped to create, and which we have before us today.

Thank you for your consideration of our views.

LANCE RUSSELL,
President, Kansas Sunflower Commission;
Board Member, National Sunflower Association.

Attachment

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The CHAIRMAN. Thank you, Mr. Russell. Now we will hear from Mr. Thaemert. Please, sir, 5 minutes. And remember, fellows, your full statement is in the record and you will summarize it within the 5 minutes. Thank you.

STATEMENT OF JOHN C. THAEMERT, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS; OWNER/OPERATOR, JT FARMS, INC., SYLVAN GROVE, KS

Mr. THAEMERT. Mr. Chairman and Members of the Subcommittee, my name is John Thaemert and I am a farmer from Sylvan Grove, Kansas, and I currently serve as President of the National Association of Wheat Growers. I would like to thank you for allowing me this opportunity to discuss how together we can best address the needs of our Nation's wheat producers in the 2007 Farm Bill.

Effective farm legislation is essential, not only for wheat growers, but also for rural economies as well as consumers both here and abroad. Farm programs were designed to cushion boom and bust cycles that are inherent to farming, and also to ensure a safe, affordable and abundant supply of food and fiber for the American people. The economic safety net provided by multi-year farm legislation is largely responsible for the food security our country enjoys, which in turn provides a variety of societal and economic benefits. People all over the world also benefit from a healthy U.S. agriculture sector through trade, technology developed with American research, and our extensive network of food aid.

U.S. farm policy is also essential to continue agriculture's strong legacy of conservation and stewardship. This is something that the wheat growers feel very, very strongly about. Our farmers and ranchers care for the vast majority of America's land. Responsible growers treat the land well because they know that it is their most precious resource. Our Nation's farm policy has the responsibility to help these men and women maintain and improve the natural resources they have cared for over, oftentimes, many generations.

Agriculture is increasingly providing Americans the opportunity to get their fuel from the Midwest rather than an unstable Middle East. The Federal Government can help make this goal a reality in a variety of ways. The emerging biofuels industry, especially cellulosic ethanol, which is of particular interest to the National Association of Wheat Growers, is an industry that could revolutionize and vitalize both our national and rural economies. These technologies will be commercialized much more quickly and efficiently if farmers can remain on their operations and profitably produce the necessary crops and feed stocks.

As for title I, the commodity title, the Food Security and Rural Investment Act of 2002 has some strong points, and the membership of the National Association of Wheat Growers believes that the 2007 legislation should build on these strengths. While wheat growers generally support the structure of the current policy, much of the safety net provided by the 2002 Bill has not been effective for wheat farmers due to the fact that the support levels, namely, the target price, were set too low. The 2007 Farm Bill has an opportunity to correct these imbalances.

The chart displayed in my written testimony clearly shows the inequities in the commodity safety net that wheat growers have dealt with over the term of the 2002 Bill. And I want to make this point quite clearly. Make no mistake about the fact that NAWG members understand the needs of producers of other crops and we certainly do not advocate a decrease in support for any crops. However, wheat producers need an equitable increase in support to maintain their operations. As a result of this inequity, our members and our Board of Directors gave firm direction to our domestic policy committee and to our officers to address this issue. After many months of discussion and extensive analysis of various options, including revenue-based programs, our Board adopted a proposal that increases the direct payment and target price to more accurately reflected increased cost of production. We therefore recommend to the Committee that the direct payment for wheat be increased to a $1.19 per bushel, along with a commensurate increase in the payment limit for fixed payments, and that the target price be increased to $5.29 per bushel, while maintaining the Market Loan Program as currently structured, a nonrecourse loan at $2.75 per bushel.

In addition to these changes in title I, NAWG opposes any type of means testing to establish eligibility for, or restrict participation in, Federal programs. NAWG supports the continuation of the three-entity provision of the 1996 FAIR Act, and separate identity rights for spouses actively engaged in farming. NAWG supports creating a separate market classification for hard white wheat.

And the highlights of our position on titles II through X include extension of CRP for sensitive lands, utilizing certain CRP acreage for land eligible for CRP, or land eligible for CRP, for the purpose of planting and harvesting dedicated energy crops, including, but not limited to, switchgrass, and continued funding for research in mapping of the wheat genome, a complex project that offers huge potential.

And at this point, I would like to refer to a magazine article that was in *Farm Journal.* I don't know if you can see it there, but it says, "Farm Bill Disappoints Wheat." This is what our members have been telling us for the last 4 or 5 years. But I want to quote a colleague of mine from Kansas and many of you may know him, Dr. Barry Flinchbaugh. In his plain spoken way he says, "Wheat has gotten the shaft in commodity programs." I think it is important that we take this opportunity to right this inequity.

In closing, I would also like to implore you about the need for disaster assistance for my members. This has been a struggle. We have been caught up in this for a number of months on this debate. We have gone through anywhere from 5 to 10 years of drought and that really hampers a person's ability to pay loans. In closing, the members of the National Association of Wheat Growers are excited about this opportunity to make needed adjustments to the 2007 Farm Bill and are ready to work with Congress and the Administration to produce legislation that will best serve all producers and consumers alike. And I thank you for this opportunity and I look forward to any questions you may have.

[The prepared statement of Mr. Thaemert follows:]

PREPARED STATEMENT OF JOHN C. THAEMERT, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS; OWNER/OPERATOR, JT FARMS, INC., SYLVAN GROVE, KS

Mr. Chairman, Members of the Subcommittee, my name is John Thaemert. I am a farmer from Sylvan Grove, Kan., and am currently serving as President of the National Association of Wheat Growers. I would like to thank you for allowing me to be here today to discuss the needs of wheat growers in the 2007 Farm Bill.

As you are aware, effective farm legislation is essential, not only for wheat growers, but also for rural economies and consumers all over the world. Farm programs were designed to cushion the boom and bust cycles that are inherent to agricultural production and to ensure a consistently safe, affordable and abundant supply of food and fiber for the American people. These programs provide stability to American agriculture, an industry that contributes to about 15 percent of our country's gross domestic product. Because of these programs, American consumers also pay less for their food than citizens of any other developed country.

The safety net provided by multi-year farm legislation is largely responsible for the food security our country enjoys, which has a variety of societal and economic benefits. Americans know that their food supply is the safest and most reliable in the world, a knowledge that fulfills a basic human need and allows citizens to be productive. People all over the world also benefit from a healthy American agricultural sector through trade, technology developed with American research and our extensive network of food aid.

Federal farm policy is also essential to continue agriculture's legacy of land conservation and stewardship. American farmers and ranchers care for the vast majority of America's land, which they know intimately. Responsible growers treat the land well because they know it is their most precious resource. Federal farm legislation has a responsibility to help these men and women maintain and improve the areas they and their ancestors have cared for over generations.

Agriculture is also increasingly providing Americans the opportunity to get their fuel from the Midwest rather than the Middle East. The Federal Government can help make this goal a reality in a variety of ways, but, for the infant biofuels market to grow to maturity, it is essential for growers to stay on the land. Cellulosic ethanol and other renewable fuels that could revolutionize our energy economy cannot be commercialized if farmers are not on the ground to produce the necessary crops.

As farm legislation, the Food Security and Rural Investment Act of 2002 has strong points, and the membership of the National Association of Wheat Growers believes that the next farm bill should build on these strengths. But, while wheat growers generally support current policy, much of the "safety net" provided by the 2002 Bill has not been effective for wheat farmers. The 2007 Farm Bill needs to correct these imbalances.

The 2007 Farm Bill is also a chance to ensure conservation programs are appropriately funded, to create incentive programs and provisions for the development of a renewable fuel sector and to provide for a wide variety of other important measures to wheat growers.

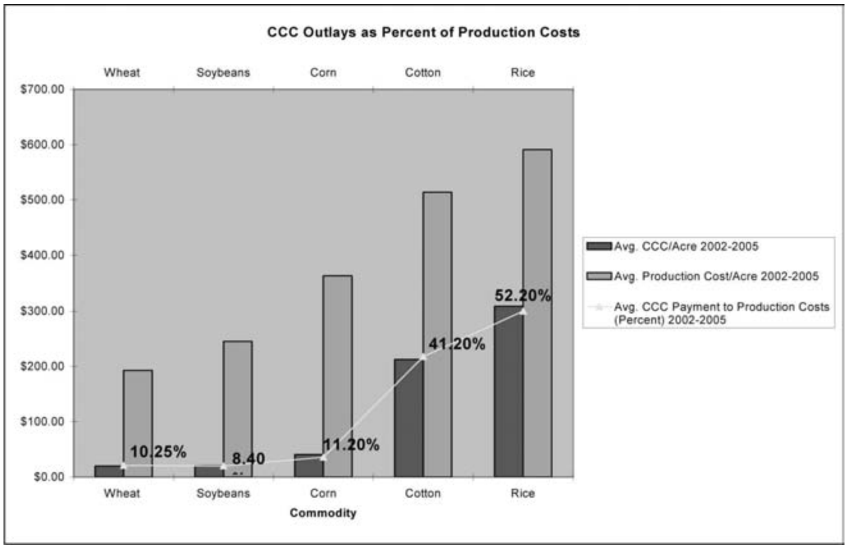
The members of National Association of Wheat Growers are excited about the opportunities inherent in the farm bill process and are ready to work with Congress and the Administration to produce legislation that will serve all producers and all Americans.

Commodity Programs

The members of the National Association of Wheat Growers realize that the U.S. wheat industry is suffering from both lower net returns and lower levels of support than other program crops, as well as a lack of access to advanced genetic technologies and stagnant demand. These challenges led to an industry-wide Wheat Summit in September 2006 that began with the goal of collaboration on issues ranging from domestic farm policy priorities and science and research to domestic utilization and exports.

One of the most important elements of any plan to restore the wheat industry's competitiveness is Federal farm policy that provides an equitable safety net for growers while allowing them to take production cues from the marketplace and while avoiding challenges based on our World Trade Organization obligations. Since 2002, wheat growers have received little or no benefit from two key commodity components of the farm bill, the counter-cyclical program and loan deficiency payment program. Severe weather conditions for several consecutive years in many wheat states have led to significantly lower yields or total failure, and the loan program and the LDP are useless when you have no crop. The target price for the counter-cyclical program for wheat was also set considerably lower than market conditions indicated, which, combined with short crops due to disaster and, thus, higher prices, has led to very little support for wheat in the form of counter-cyclical payments. This safety net failure has hurt many wheat growers and has led to a continued decrease in wheat acres.

The chart below clearly shows the inequities in the government-provided safety net to wheat growers over the term of the 2002 Farm Bill. While NAWG members understand the needs of producers of other crops and do not believe that their safety nets should be decreased, it is important for wheat growers to be in an equitable position relative to other program crops.



Source for CCC outlays: *http://www.ers.usda.gov/publications/agoutlook/aotables/2006/03Mar/aotab35.xls.*

Sources for production costs/acre: *http://www.ers.usda.gov/Data/CostsandReturns/testpick.htm.*

We, therefore, recommend to the Committee that the direct payment for wheat be increased to $1.19 per bushel and that the target price be increased to $5.29 per bushel, while maintaining the marketing loan program as currently structured.

While we are aware that other agriculture organizations have expressed concern about the effects that the direct payment may have on rental rates, we believe that the direct payment does not cause any greater increase in rental rates or land values than any other income. For instance, *The Wall Street Journal* reported on March 7 of this year that, "Farmland prices are soaring across the Midwest amid a surge in demand for corn driven by the ethanol boom." We believe that higher crop prices and more demand for corn acres are the real causes of increases in land values and rental rates—not the direct payment.

The decision of the NAWG Board of Directors to support the above proposal came about as a result of reviewing data on trends in the wheat industry including historical prices, historical cost of production and historical yields as determined by USDA's National Agricultural Statistics Service and USDA's Economic Research Service. NAWG's Domestic Policy Committee also obtained data from the Food and Agricultural Policy Research Institute and the Agricultural and Food Policy Center that helped determine what it would take to keep wheat growers on the farm. (These reports are available through NAWG or on the NAWG Website, *www.wheatworld.org.*)

According to USDA data, historical input costs for 2005 and 2006—the most representative of forecast production costs over the term of the next farm bill—averaged $215.79 per acre.[1] The average yield, on the other hand, has stayed around 38 to 42 bushels.[2] Using these numbers, the average cost to produce a bushel of wheat is around $5.29 while the average market price over the term of the 2002 Farm Bill has been approximately $3.40 (2003–2005).[3]

While most wheat growers purchase crop insurance and rely on it heavily, affordable coverage is typically limited to 65 to 70 percent of expected yield. Wheat growers expressed concern, therefore, about ensuring that a safety net exists for the other 30 to 35 percent of the crop. By providing a safety net to wheat growers of

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[1] *Cost-of-production forecasts for U.S. major field crops, 2005–2006f,* Economic Research Service.

[2] *U.S. & All States Data—Wheat All, 1995–2006,* USDA–NASS Quick Stats, National Agricultural Statistics Service, USDA.

[3] *U.S. & All States Data—Wheat All, 2002–2006,* USDA–NASS Quick Stats, National Agricultural Statistics Service, USDA.

$1.19 per bushel in the form of a direct payment, Federal farm policy can assure growers, their families and their bankers that they have a predictable and dependable safety net.

This proposal also took into consideration our current World Trade Organization obligations. This proposal is based on historical information and, in part, relies on a direct payment that is decoupled from current production.

The benefits of this proposal echo Secretary of Agriculture Mike Johanns' view of farm bill priorities, as stated publicly many times and specifically in an interview on Aug. 2, 2006: ". . . but it seems to me we should be talking about, how do we make our farm program predictable and beyond challenge and equitable for that matter?"

NAWG members also support an increase in payment limits commensurate with the increase in the direct payment. While we understand this has been a very heated issue in the past, we believe that we cannot use any types of means testing in the farm bill, especially since payment limit proposals in the past have always targeted the direct payment more than the counter-cyclical or loan payments. This is unfair to wheat producers, who rely most on the direct payment.

In addition to these changes in the farm bill's title I:

- NAWG opposes any type of means testing to establish eligibility for or restrict participation in Federal farm programs.
- NAWG supports the continuation of the three-entity provisions of the 1996 FAIR Act and separate identity rights for spouses actively engaged in farming.
- NAWG supports creating a separate market classification for Hard White Wheat.

Conservation

NAWG believes that all components of title II are important and that full and adequate funding for conservation programs should not come at the expense of full and adequate funding for commodity programs; the conservation title should not replace the commodity title. NAWG further believes that participation in a conservation program does not create a new right of public use and fully protects all otherwise applicable private property rights.

NAWG makes the following recommendations for title II:

Conservation Reserve Program (CRP)

- CRP should be continued and renewed.
- CRP should be limited to the most highly erodible soils.
- CRP payments should reflect local rental rates.
- Any wheat base acreage enrolled in CRP should be restored, but not updated, upon the expiration of the contract.
- CRP acreage should be capped at 39.2 million acres.

Conservation Security Program (CSP)

- CSP should be fully funded and returned to its original purpose.
- If CSP is not fully funded, the "priority watershed" concept should be implemented.
- Choice of crop protection products should not qualify or disqualify producers from participating in CSP.

Administration

- NAWG does not support consolidating the conservation programs administered under the Department of Agriculture. However, NAWG believes that duplication and competing administrative functions should be removed to provide a streamlined sign-up process for these conservation programs. Additionally, NAWG believes Natural Resources Conservation Service programs, like the Conservation Security Program, should be administered by the Farm Service Agency.

Other

- NAWG also opposes the proposed sod saver provision from the Administration that would make grassland (rangeland and native grasslands, not previously in crop production) acres that are converted into crop production permanently ineligible for farm price, income support and other USDA program benefits.

Trade and Food Aid

NAWG supports fair and open trade of wheat throughout the world. Nearly half of U.S. wheat is exported and, since 95 percent of the world's population lives outside of the United States, wheat growers recognize that expanded markets will likely be overseas. In addition, wheat growers continue to support food aid programs. However, our requests for title III cannot come at the expense of the commodity or conservation titles.

To facilitate trade, the wheat industry:

- supports funding of the Market Access Promotion (MAP) program at no less than $300 million annually.
- supports the use of funding allocated to the Export Enhancement Program (EEP) to enhance U.S. wheat exports and market development programs until all export subsidies have been eliminated.
- supports increased funding for CCC export credit programs.
- supports funding of the Foreign Market Development (FMD) program at no less than $55 million annually.
- supports continued legislative authorization of the cooperator program as a line item in the CCC budget.
- supports producer oversight of the allocation of cooperator program funds.

In the area of food aid, the wheat industry:

- opposes any attempt in the World Trade Organization (WTO), or in any other venues, to require that food aid be given as "cash only" instead of allowing donor nations to provide food directly as emergency and development assistance.
- supports funding food aid programs at levels no less than the amounts needed to provide food donation levels of at least six million metric tons annually, of which three million metric tons should be wheat.
- supports the original intent of the Bill Emerson Humanitarian Trust, that it provide direct food aid and should not be sold back into the U.S. domestic market. The wheat industry also supports the Emerson Trust being replenished in a timely manner.
- believes that current programs administered by the U.S. Department of Agriculture are effective and should remain under USDA management.
- believes that, except in times of emergency, U.S. food aid programs should be comprised of U.S.-produced food.
- opposes withholding of food aid for political purposes.

Credit

NAWG supports financing programs for beginning farmers. In addition, NAWG supports the continuation of and increased funding for the FSA guaranteed loan program. NAWG supports full funding for the FSA reduced interest loan program.

Rural Development

NAWG is supportive of rural development programs but strongly opposes the diversion of money from other areas of the farm bill for these efforts.

Research

NAWG supports funding for the mapping of the wheat genome and international triticae mapping initiatives. NAWG also supports funding for research into fusarium head blight and other wheat-related diseases and pests, as well as for other research initiatives that would benefit wheat growers.

Energy

NAWG supports utilizing Conservation Reserve Program (CRP) acreage, or land to be enrolled in CRP, for the purpose of planting and harvesting dedicated energy crops including, but not limited to, switchgrass. This should be carried out in a manner that maintains the environmental benefits that CRP is designed to achieve.

NAWG also supports the Commodity Credit Corporation offsetting 40 percent of the cost of cellulosic feedstock for the first year of a cellulosic ethanol refinery's life. A similar program intended for other types of biofuel, the CCC Bioenergy Program, expired in 2006, and should be reauthorized to support cellulosic ethanol feedstocks, including dedicated energy crops or agricultural/forestry residues. The program could be simplified to provide a per gallon payment rate, consider a payment limit per eligible entity and be terminated as cellulosic ethanol becomes commercially feasible.

NAWG is highly supportive of programs to encourage the development of a viable renewable energy sector, but strongly opposes the diversion of money from other areas of the farm bill for these efforts.

Other Priorities

NAWG supports creating a Hard White Wheat development project that would focus on achieving critical mass. U.S. Wheat Associates' HWW Committee will draft a plan that includes a research component and an infrastructure development component. A draft concept paper is available at *http://www.wheatworld.org/pdf/Draft%20HWWDP%20(2).doc* and will be updated as necessary.

NAWG believes that a nationally-uniform regulatory structure for biotechnology regulation is essential to successfully utilizing this technology. Accordingly, we propose amendments to the Grain Standards Act that would ensure a uniform, national regulatory structure.

NAWG supports Federal pre-emption of state labeling requirements for biotech products to ensure that labeling is voluntary, consistent with U.S. law, consistent with international trade agreements, truthful and not misleading.

Notes

Both the NAWG Domestic Policy Committee and the NAWG Board of Directors began examining several farm bill proposals and options as early at April 2005 to ensure that the organization's recommendations to Congress would provide the best possible safety net for wheat growers.

Proposals that the NAWG Committee and Board examined included several revenue assurance-type programs, including options outlined by the American Soybean Association, the National Corn Growers Association, a NAWG Domestic Policy Committee proposal, and most recently, program recommendations from the U.S. Department of Agriculture.

While these programs continue to sound good in theory, after much analysis, we have determined that these programs just won't work for wheat growers. Most are based on a 70 percent cap, and/or either a 3 year average or 5 year Olympic average income that is used to determine a producer's "target" revenue.

Wheat is grown mostly in areas of variable production that have experienced recent years of drought and other natural disasters, which brings a producer's potential target revenue much lower than it should be. That, combined with the possibility of only being able to cover 70 percent of revenue makes these programs a no-win situation for wheat growers. The recent proposal by the USDA uses the current (2002 Farm Bill) target price as the basis for figuring a target revenue. Wheat growers have continued to state that the current target price is far below what market conditions indicated was necessary for a reliable safety net, so a new target revenue based on the same number is completely inadequate. A quick analysis of the current year situation shows that once again, wheat growers would not receive any safety net from the Department's proposal.

The CHAIRMAN. Thank you very much and I thank each of you for your testimony. The chair would like to remind Members that they will be recognized for questions in the order of seniority of the Members who were here at the start of the hearing. After that, Members will be recognized in the order that they arrived for the hearing. So I appreciate your understanding of that. We will adhere to that. Mr. Moran and I agreed, though, that if the Chairman and Ranking Member show up, that sort of will take precedence over the rest of us. So with that, I will recognize the Chairman of the Committee, Mr. Peterson, for the first questions.

Mr. PETERSON. I thank the Chairman, and I want to thank him, the Ranking Member, and the other Members of the Committee for the outstanding job they are doing and the leadership in getting more information pulled together. I just got back from speaking at the National Cattlemen's. I got delayed because the President was speaking and I got caught up in all of that commotion that goes on and couldn't get out of there. But what I said to them I want to say to you, since you brought it up, Mr. Thaemert.

Mr. THAEMERT. Yes, sir.

Mr. PETERSON. Did I get that right? The disaster. We really didn't want, or choose, to put this disaster in this Iraq supplemental, but we didn't have any choice. This was supposed to have been done last year; we were promised in September; we were promised after the election. It didn't happen. I don't know how exactly we are going to work through this, but I just had a farmer Saturday in my district commit suicide over this. It is a serious situation and we need to address this and we need to figure out how to deal with this in the farm bill so we don't have to go through this every 2 years in the future. But in my judgment, if we don't figure out some way to work through this and get the President's support in this bill, whatever it ends up being, we aren't going to get this done and people need to understand that. I mean, this is the last train out of the station. If we don't get this done now, it isn't going to happen. So whatever influence any of you have, we have to figure out some way to get this done.

So Mr. McCauley, I have a letter from my Minnesota corn growers and apparently they are still not totally on board with you, is that correct?

Mr. MCCAULEY. That is correct. But I want to emphasize that.

Mr. PETERSON. You are not making any progress with them at this point.

Mr. MCCAULEY. No, there are three states that have different opinions and we have been notified of that, but we have had a large majority of our membership that is in favor of it, but Minnesota is not.

Mr. PETERSON. And there are no more discussions, or are you still talking, or what?

Mr. MCCAULEY. I think we will just leave it like that.

Mr. PETERSON. All right. So Mr. Thaemert, the rebalancing idea that some of you guys have put out, that is not workable for you, I take it?

Mr. THAEMERT. We are looking at cost production as opposed to market prices. The market hasn't always guaranteed a return and we are not expecting to be guaranteed a return. The formula that you will see in our written testimony also does not guarantee a return, either. We put a margin in there. The issue that we have been looking at is the increased inputs and the cost of production relative to loan rate, target price and direct payments. And we struggled with a lot of different formulae. We looked at a lot of different delivery mechanisms; and what we could come up with as the best one for wheat was an increase in the direct payment and an increase in the target price. And I think it is very important to note that it is not a cookie-cutter application for every crop. The agronomics are different.

Mr. PETERSON. Well, if you recall, I tried to improve the situation for wheat and barley in 2002. Unfortunately, at that time, I didn't have enough clout. It is a little different this time, but we will see what we can do here. But I should know this, but have you gotten a score on what the changes, how much——

Mr. THAEMERT. We are working on——

Mr. PETERSON. We haven't got a score——

Mr. THAEMERT. We have submitted an analysis of the target price and direct payment. The preliminary numbers that we hear are that the projections for the price increases are high enough that there won't be much of a counter-cyclical as a result. The cost of the direct payment, we haven't got a scoring on that yet, but we are waiting for that analysis.

Mr. PETERSON. I assume, are all of you guys opposed to the President's payment limit idea? Unanimous. And what do you think about this idea on the President's or the Secretary's farm bill, where they want to change the posted county price from a daily basis to monthly? Have you guys looked at that? What do you think about that change?

Mr. MCCAULEY. Well, we talk about it every year at our policy session, and throughout the year as we have LDPs. Our proposal would change the way you look at posted county prices and we think that would answer that question.

Mr. PETERSON. And it would still be daily, the way you are proposing it?

Mr. MCCAULEY. Ours would be a yearly, established in the spring.

Mr. PETERSON. Oh, yearly. Okay.

Mr. MCCAULEY. That is one the benefits, also.

Mr. PETERSON. The rest of you have any comment?

Mr. OSTLIE. I guess I still think it is very important to keep them on a daily basis as we have done in the past. I think it is something that has worked and it should be left the way it is.

Mr. THAEMERT. Well, speaking for wheat, we haven't received any LDPs, so I can't really talk about that. But for other crops, I would say that the marketing flexibility of the daily price system would be more desirable.

Mr. PETERSON. If I could have one more? I keep getting complaints all the time about the way these prices are set—like if you had one county next to another and they have differences. People are hauling their grain two counties over because they can get a better deal, and all of that sort of stuff. Have you guys, in the work that you do, taken a look at that whole situation, in terms of how they establish those county prices? Did you come up with any ideas on how to get around some of these issues that keep coming up?

Mr. MCCAULEY. We have looked at that quite a bit, Mr. Chairman, as in 2005, 2006, and 2007, and those continually continue to be a problem and it is always in one area. We felt like it is best to be addressed when you have that problem, because I think you are always going to have some kind of a problem as prices go from area to area and county to county. So we have addressed it as an implementation or administrative job.

Mr. OSTLIE. Well, I guess I probably would agree with that. I think a lot of the problem is the way they do the formulae and a lot of the local problems of how they determine those prices on a county-by-county basis. I am not sure how we would change the law to actually address that at a national level. But it definitely is a problem, especially in our area, where we have these really large counties that are 30 by 40 miles wide. It really gets distorted from one end to the other.

Mr. PETERSON. All right. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Thank you, Mr. Chairman. Mr. McCauley, you stated that your proposed revenue counter-cyclical proposal would reduce the indemnities paid out on risk management to where it would re-rate insurance products so producers could obtain higher coverage levels of individual revenue insurance at a lower premium. You also cited analysis provided to NCGA to this effect. My question is, who conducted the analysis and has anyone in the crop insurance industry, have they confirmed the conclusions? It would be interesting stuff. We would just like to know what.

Mr. MCCAULEY. We had the study done by a CARD at Iowa State, Dr. Babcock. We had it reviewed by Dr. Barnaby. He commented on it. He didn't totally review it, and another professor. We talked to the crop insurance industry, but really, these things have just come together pretty fast, so we anticipate doing that shortly. But one of the things that I really need to emphasize is that there is an overlap as you go through government payments at the FSA office and the crop insurance industry. We feel like we can do this without hurting the crop insurance industry's profits. We could actually give them more access, to the farmers, the individual policies and as the buy-up. So we think, with a little bit of vision, the crop insurance industry can benefit also from this.

The CHAIRMAN. It would probably be helpful to this Committee, though. We need some pretty hard data before we start doing——

Mr. MCCAULEY. I realize that.

The CHAIRMAN. For the rest of you on the panel, let me ask this question. You suggested a number of changes and certainly that is what we like to see as it relates to loan rates, target prices, how loan repayment rates are calculated and how LDPs are collected, *et cetera*. As I listen to that, it seems to me that these suggested changes will end up costing some money. So my question is this: Money that we really don't have unless we do some adjustments somewhere else. So let me ask the question this way. To achieve the changes you want, would each of you be willing to see a reduction in the direct payment, or would you rather keep the programs as they are, without changes? Because when you start doing it, we have a limited pot of money, as each of you know, this year. We don't have the benefits we have had in the past. I would appreciate you helping this Committee with your comments on that.

Mr. OSTLIE. I guess I would like to comment on that. I will comment first here. I mean, first of all, I would like to see, obviously, new money to fund our changes. But as I travel around the country, most farmers like the basic framework of the 2002 Farm Bill and that is what I have seen from most farmers. The problem is, the way it is set up right now, it simply causes farmers to make a planting decision based on a farm program. We think that those planting decisions have to be made on the market. So I guess when you talk about reducing the direct payments somewhat to pay for this; I guess I realize that that would affect all commodities, not just soybeans. You know, so I hate to—but I think that is something that we would be willing to look at. But I do understand it affects all commodities.

The CHAIRMAN. Anyone else?

Mr. THAEMERT. Yes, I would like to address that. You know, as I stated in my testimony, a cookie-cutter approach probably isn't the best way to go. What works for corn and beans doesn't work for wheat. What works for wheat doesn't work for flowers and rice. And in the marginal production areas where wheat is normally grown, the direct payment is the only thing we have been able to depend on. We can go to our creditor and we can have a cash flow and know that we are going to get it. So wheat growers are strongly opposed to any reduction. As a matter of fact, we are pushing for an increase in the direct payment. As far as distorting planting, direct payment is based on historic. The loan rate would have more impact on planting than the direct payment would, and the direct payment is a known entity and we can budget for it and so can the government.

The CHAIRMAN. We are going to run out of time. Anyone else want to comment, yes or no?

Mr. MCCAULEY. We feel that the direct payments have been included in our proposal. It fits. We want to keep it, but you know, we have to realize that as we go through the process, that that might be some of the things we have to deal with.

The CHAIRMAN. Okay, thank you. Let me ask each one of you and get it on the record. The Chairman thinks it is important. When the Secretary came, he talked about the AGI limits of $200,000. I happen to believe, in farming across this country, with the changes in cost and everything, that is going to be very difficult. I would like to know from each one of you very quickly, do you agree or disagree with that limit?

Mr. PUCHEU. Absolutely disagree.

Mr. MCCAULEY. I will have to say we think that it is a creative idea and it would be combined with a 3 year average or there is some ways that this could make some sense.

Mr. GERTSON. I disagree.

Mr. OSTLIE. And I would also strongly disagree.

Mr. RUSSELL. I would echo most of this. I would disagree as well.

Mr. THAEMERT. Strongly disagree.

The CHAIRMAN. Thank you. Thank you, gentlemen, and I yield to Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you very much. Let me compliment Mr. Peterson's efforts in regard to disaster assistance. There is no more greater need in ag country, and certainly from the ag country I come from, than disaster assistance. It has a higher priority at the moment than necessarily trying to figure out the details of the farm bill, and I will admit that we have failed in past Congresses led by the Republican Party. And I would also say that it is less than a perfect scenario to the new leadership. This is an issue, as Mr. Peterson indicates, that we have to figure out how to resolve and resolve quickly, and I look forward to working with him and others to see that that is accomplished. The farm bill and long-term policy is certainly important, but we will have a lot of farmers who aren't in business to take advantage of this newly refined and improved version of the 2002 Farm Bill.

Let me ask a couple of questions. Our Chairman has given me strict instructions that I am to abide by the 5 minute light, and so I will. And it sounds like my colleagues are pleased by that suggestion as well. You talked about an unbalanced system in which there are a couple of components to how we determine what loan rates or target price ought to be. I assume one is what is we have talked about, this balance. I find it interesting and perhaps this is the way we would approach it too, is that we talk about how to raise crops' target price. No one mentions that someone else's target price might be too high now and that that is what you pay for, is by the adjustment of a give and take, which I assume has implications that make testifying before our Committee more difficult. But in addition to trying to figure out how you balance these payments that are based upon this desire that farmers make decisions based upon the markets and not based upon what the program says.

The other part of this is the safety net and we have in all of this conversation seemed to concede that we are going to have less money to work with than we had in the 2002 Farm Bill. And in part, the Administration's proposal is based upon a belief that prices will continue to be where they are today or higher during the life of the farm bill. It is troublesome to me that we spend a lot of time talking about prices, but very little understanding of what has happened in the cost of production. My understanding of the safety net, the purpose of the farm bill is to provide assistance to farmers in times in which the cost of production is not exceeded by the cost, or price, that they receive for the commodity they grow. So if we are trying to develop a safety net, what is your advice about target prices, as far as it relates to other commodities? And what would be your reminder to this Committee about the increasing input costs that have occurred since we adopted the 2002 Farm Bill? And in that regard, about target prices, can we treat commodities differently? Wheat is very interested in having a higher direct payment. Does that mean that every other commodity needs to be treated the same way? Or can we have a different program, a different target price, a different emphasis on a direct payment, based upon what commodity program we are dealing with? Mr. McCauley?

Mr. MCCAULEY. Thank you, Congressman. I think the stability factor is really the important part when we start looking at the safety net as we go to these higher prices. In the corn market, today we are looking at $4 corn. I think a lot of our producers are recognizing the fact that there is actually more risk growing these higher priced crops than there is, say, $2 corn. So we, with this revenue approach, feel like we are addressing that. We put a cap on it so that we can be responsible looking at our taxpayers and say we don't feel like we need a support over this figure.

Mr. MORAN. Let me follow up on my final question, which was, can we treat corn differently than other commodities? So you found a program that you think will work better for corn. Does that mean we could do something different for wheat, or do you see this as needing to be uniformly applied to all commodities?

Mr. MCCAULEY. We have done some rebalancing. We used the soybeans' percentage rates to come up with this cap. I have to recognize that each commodity has their own issues. I totally agree with that. I think with some work we could probably make this go across, but it doesn't address some of the other things that they have. As my limited experience in farm programs over the last 35 years, everybody has their own issues and I hear from legislators that, to make it work right, they all have to be uniform. So I am hoping we can come together and make something uniform.

Mr. RUSSELL. My biggest concern, Congressman, is when I go and do my spreadsheet, and go to my banker to get my loan for my operating mill for the year, he looks at what the minimum return is going to be a year. We don't know what the prices are going to be, so we have to look at the loan prices, first of all. We know that is the minimum that we are going to get on our crop. And the inequities of the sunflowers, the banker looks at me kind of funny and says, "Are you sure you don't want to grow another crop?" Even though the demand is there, we have to look at the bottom line, like you said, the increase in the input. The increase in my fertilizer, just this last month, went up 15 percent. We have to look at that safety net to where we are just asking if sunflowers were on a level playing field to where we can at least be in the game with the other program crops. We want a safety net to where we can go to our bankers and say, "Here is what we have and this is what we can do. Let us do what is best for the consumers, by producing this better oil."

Mr. THAEMERT. Congressman, I represent a crop that is grown in semi-arid areas. There are people that can only grow wheat or barley. If you happen to be down in some places with marginal rainfall, they can go grow very good wheat, but that is about all they can grow. They don't have the options of these other crops, so they focus on what works for wheat and the direct payment has been something that, as Mr. Russell alluded to, you can go to your creditor and you know you are going to get that. And it is also a lot of trade distorting support. The loans run into some issues there and there are some issues as far as market or trade distorting that the loan rate has.

Mr. OSTLIE. I guess most of us farm most of the other crops. At least in my area we grow other crops but rice, obviously, not in North Dakota. But you know, I have raised more wheat over the years going back than I have soybeans, actually, so I definitely understand the problems in the wheat market. But one of the disturbing things in my area, what I see as a direct payment, is that most of the people that own land or are renting land, they pencil that direct payment right into the price of their land right away. I feel that it really takes away a lot of the safety net that it was intended for, because that money gets put into that land price too quickly. I guess, going back to rebalancing, I have had the same situation happen, where you look at different crops and because of the farm program, your banker says, "This one you can guarantee yourself a better return," even though in reality it is not and you have to argue with them and say, "Well, I guess I am the boss." But it is unfortunate that the farm program sometimes does determine what you seed. I feel that our rebalancing of the target price and loan rates really addresses that. You should not be looking at having to have the farm program determine what you seed. Thank you.

The CHAIRMAN. Thank you. Let me also welcome Mr. Costa to the Committee today. He is sitting in. We welcome you here today.

Mr. COSTA. Thank you very much, Mr. Chairman. I heard all of the Kansas talk earlier and it is nice that you would allow a Californian to sit in here. We do appreciate it.

The CHAIRMAN. It is good to have you.

Mr. COSTA. I do have a witness here from my district. There really is a Tranquility, California, believe it or not and a wonderful place to live. But I do have a question I want to submit to him later on.

The CHAIRMAN. Good to have you. When the time becomes appropriate. At this time, I would recognize the gentlelady from Kansas, Mrs. Boyda, for 5 minutes.

Mrs. BOYDA. Thank you, Mr. Chairman. And yes, Mr. McCauley is from White Cloud. And I would like for the record, Mr. McCauley, is Kansas flat?

Mr. MCCAULEY. Not everywhere.

Mrs. BOYDA. Where Mr. McCauley lives is beautiful rolling plains, so I would like to get that myth out of the way. And I would also just like to say thank you for your proposal. I am a freshman and certainly learning how all of this is going to go and having my input, but quite honestly, I am very much in the learning stage today. So I appreciate the fact that you put together a proposal that said, "We want revenue but we realize that we are going to have to pay for it in some way," and came up with a balanced approach, so thank you. And I will watch with interest as those discussions go on.

It is interesting as we try to balance all of the payments, too. I would just like to put a few of my good Kansans on the spot, if I could, and just come back and listen to how you find a balance between these things. But the Sunflower Commission has basically said to the wheat growers, we are going to propose that you have a price support of $4—and 15¢—something along those lines. Do you think that $4.15 is really adequate for the wheat growers to go ahead and to be able to produce wheat? And by the way, Mr. Thaemert, I am going to come to you. But I would love to just hear how you found the way to balance this.

Mr. RUSSELL. As a producer?

Mrs. BOYDA. Yes.

Mr. RUSSELL. As a producer, number one, I have a rotation on my farm and I do use wheat, sunflowers, grain sorghum and corn and soybeans. But on that point, any safety net, bottom line, that I can take to my banker and say in my rotation, that I can clear my cost, then he is willing to do that for me. Sunflowers has been the hard part of my rotation, to get that done, and as I sit here representing sunflowers, that is all we are asking for. And we are a minor oilseed, so the total dollars really don't add up to much.

Mrs. BOYDA. My question is really back to, is $4.15 going to be adequate for the wheat growers? You are in Hays, yes?

Mr. RUSSELL. Yes.

Mrs. BOYDA. So I don't know if you go out to western Kansas, if that is a different scenario. But in your mind, $4.15 would be an adequate price there for wheat growers. Let me just turn to Mr. Thaemert for a minute——

Mr. THAEMERT. Yes.

Mrs. BOYDA.—and come to you and say you are requesting $5.29, which is really up from less than $4.

Mr. THAEMERT. Yes.

Mrs. BOYDA. Is $5.29 the bottom line or is it something that, in fact, you are going to be able to work with and find a balance there?

Mr. THAEMERT. That is a number that we got from USDA records and we divided that by the 10 year average yield. That was the cost of production, the average of 2005 and 2006, divided by the average production of the last 10 years and we came up with a national number. We are not just pulling that number out of the air as $5.29 per bushel. Congressman Moran alluded to cost of production. A lot of people have been looking at price. Price doesn't guarantee you profitability. Again, we are not looking for a guarantee of profitability, but you might as well have a number that is based on cost of production, and that is what we did. So that is where that number is, we feel comfortable with that number, and that is why we chose that number.

I would like to address one thing that was said earlier about direct payments being capitalized in the land values. Any income stream associated with the ownership of an asset gets capitalized into that asset, whether it is a loan price or whether it is a direct payment, regardless. And increased land values aren't necessarily a bad thing for rural areas. When you look at how much tax base supports schools, hospitals and other county entities, this is just another way to help rural areas take advantage of some of the prosperity in the urban areas. So we are so adamant about an increased direct payment, that that is our focus and that is where you need to be. It is predictable.

Mrs. BOYDA. Right. I yield back my time. Thank you. I appreciate just listening to how you balance it out. Thank you.

The CHAIRMAN. I thank the gentlelady. The gentleman from Texas, Mr. Conaway, for 5 minutes.

Mr. CONAWAY. Thank you, Mr. Chairman. Thank you, Mr. Chairman. Good to be here. Gentlemen, thank you for coming today. Mr. McCauley, you had mentioned that, when Mr. Peterson asked about Minnesota, Texas also has a letter out that says that they are not in accordance with what the National Corn Growers have done. You mentioned a strong majority or whatever. Can you give me the actual numbers of the split between those in favor of your position *versus* those who are not?

Mr. MCCAULEY. Our delegates were over 70 percent in favor of our policy.

Mr. CONAWAY. Okay.

Mr. MCCAULEY. The revenue-based policy.

Mr. CONAWAY. All right. Thanks. You also mentioned that we wield this up here like very poor referees. To try to referee between commodities is about the best we can do and we have commodities who come to us with a difference within the commodity itself. It really makes our job even tougher in terms of how we try to make all of that work. So I would encourage you to continue to work with the folks. I think there are four states now and there may be other states added on to that. You know, continue talking with each other and try to figure out a way to reconcile it within corn so we can limit the amount of refereeing that we have to do.

Mr. MCCAULEY. I recognize that it is a state issue. We haven't had anyone question our concept, most of these—marketing loans—it is a regional issue, probably. But I wouldn't want to speak for any of those states, because they have dissented and that is the way our policy reads.

Mr. CONAWAY. All right. Thank you. Mr. Pucheu, I am pronouncing your name——

Mr. PUCHEU. Pucheu.

Mr. CONAWAY. Pucheu. I am sorry. Excuse me. Can you talk to us a little bit about—we have a high inventory right now, a carryover inventory of cotton from this past crop. Can you talk about, are there things that we ought to be doing within the 5 year window of this farm bill that will help address that? We aren't going to fix it today immediately, but is there something about the policy we have in place that could contribute to that or is it just——

Mr. PUCHEU. We are looking at ways to fine tune the marketing loan but basically, we had two things happen this last year. India had a bumper crop and China had a bumper crop and then the other long-term thing is the decline of our domestic textile industry, and we are adjusting to exporting a larger percentage of our crop. But with the shift, we are going to have a major shift in acreage this year, cotton acreage going down and shifting into soybeans, and especially corn, and this is going to help pull down our carryover and it should not be as big a problem as it has been the last year.

Mr. CONAWAY. So the modest proposal that you are making for textile support is all you are going to change within the farm bill itself to address this?

Mr. PUCHEU. Basically, that is the major change we are proposing.

Mr. CONAWAY. Okay. Again, I appreciate you gentlemen coming this morning. What I have heard is that, except for the National Corn Growers Association, most of you support the position we have with minor changes within there. We will have a limited amount of money to go at it. I don't expect any of you to trade against yourself this morning and tell us that you trade or whatever. We will be working with you and look forward to working with you during this process. Thank you for your testimony. With that, I yield back.

The CHAIRMAN. I thank the gentleman. The gentleman from Indiana is now recognized for 5 minutes, Mr. Ellsworth.

Mr. ELLSWORTH. Thank you, Mr. Chairman. I don't think it will take 5 minutes, but I appreciate it and I think I only have one question. It has been very informative for me, also, as a new Member. I just wanted to know, as I did my town halls over the last few weeks with farmers, a lot of the subject of Farm Flex came up, especially with some of the people who might like to grow tomatoes and get into that on base acres. They explained to me that they are getting "double-whammied" on base acres if they prefer to grow tomatoes. I was just curious if your organizations had taken a position on the Farm Flex issue and how you feel about that. So if you can just grab the line or if anybody wants to jump in.

Mr. PUCHEU. The National Cotton Council has supported the existing policy.

Mr. MCCAULEY. We are supporting the existing policy, but we do recognize the fact that the fruits and vegetables is an issue, not only with trade, but with the budget. So we think that we need more research on how it would affect corn and how it would affect the total budget of the farm bill, the commodity title.

Mr. GERTSON. We support the present policy. I remind you that the WTO has a different view on this, and we will support whatever the Administration or whatever is composed.

Mr. OSTLIE. We would support continuing the existing policy on vegetable crops.

Mr. THAEMERT. We would be in favor of planting flexibility for vegetables.

Mr. ELLSWORTH. Thank you. Let me go back to Mr. McCauley. You always get lead on this, so I will just run back to you. Can you just explain when the farmers came in and said, “They don’t want the base payment. They just want the option to be able to negotiate that.” Can you explain what the position—if they are saying, “We will forego the base payment, just give us the option and don’t bang us twice on this.”

Mr. MCCAULEY. I think if you look at the fact that the money doesn’t affect the rest of the commodity title, it makes a huge difference. Depending on how much money you are actually talking about, it would make a lot of difference. That is what I said about the WTO implications. We do need to make a farm bill that is WTO compliant and that would make a big difference in that.

Mr. ELLSWORTH. Thank you, sir. Thank you all. I would yield back, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. Now for 5 minutes to the gentleman from Louisiana, Mr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman, and thank you all for your testimony. We certainly appreciate the work that you are all doing. I don’t want to leave rice out of this and I want to discuss a few issues here. First of all, the rice industry over the past 2 decades has had a very difficult time, with declining market access and of course, we have seen the recent disasters secondary to the hurricanes, which had a major impact. And you have made several specific proposals here. In your testimony, Mr. Gertson, you mentioned that loan rates for rice production have not changed in 18 years; meaning that the loan rate compared to the variable cost has fallen by 33 percent, which is a pretty significant drop or differential. I want you to express, for the record, how this has impacted the rice industry. How your specific proposals which you mentioned, the modest increase in the program support levels for rice to a loan rate of $7 per hundredweight, a target price of $11 per hundredweight, setting the loan rates for all classes of rice at the same level. I understand the current system, by separating them out, hurts long grain rice more proportionately. And then I have a specific question about the AWP. But for the record, give us an indication of how these measures will go toward stabilizing, long-term, the rice industry and how they will account for the increase in variable costs?

Mr. GERTSON. First of all, the $6.50 loan rate increasing to a $7 loan rate, this modest increase would help slightly on the 42 percent increase we have had in costs. Our fertilizer cost, a ton of urea in 2002 was $150. Today we are paying $425. We have taken—increases and fuels—just in the last 18 months, our cost per acre has gone up a hundred an acre and this increase in the loan is just to stabilize our economy a little better. Knowing that we are short of money in this country, we feel like this is a modest request, increasing our target price to $11. At least we can take this to the banker and say, "Look, we have a target price of $11. Can you go along with us?" We have to got sell the banker in order to be able to farm. We cannot just go down and get a blank check to farm. We have to show some stability and this will help us to adjust this to the point that we feel like we can get financial backing. And do you want to go to the black box?

Mr. BOUSTANY. Right. Yes, with regard to the average world price, you mentioned the need for transparency. Were there any specific recommendations that you have at this time?

Mr. GERTSON. Well, the specific problem is there is only a couple people that know how this world price is arrived at. Cotton, for instance, it is transparent. You know how it is arrived at. But there is this black box that nobody understands how they come or arrive at a world market price. And so what we would like to see is a program kind of like cotton, where we know what is happening. We know where they get all of their figures to arrive at a world market price, because right now we don't. We don't know how they come up and I think it should be our right to know, in our own commodity, how they come up with these world market prices.

Mr. BOUSTANY. Thank you.

Mr. GERTSON. Okay, going back to the fixing the loan between the three grains——

Mr. BOUSTANY. Yes. Right. Yes, could you just——

Mr. GERTSON.—long, medium and short. We would like to fix it and the main reason we would like to fix it is because if we have a loan that fluctuates, again, we can't go to the banker and say, "We have an $11 loan rate." If they are going to adjust it between the three, we can't go to our banker and say, "It is going to be X number of dollars. It might be 50¢ lower or 50¢ higher." If we feel like we are going to set a target price, we should have a fixed loan price to give to our banker. Our whole industry has agreed. All the different growers in the different states have agreed that we need a fixed loan price.

Mr. BOUSTANY. Okay. I thank you. That is all I have.

The CHAIRMAN. I thank the gentleman. Thank you. And I now yield 5 minutes to the gentleman from Georgia, Mr. Marshall.

Mr. MARSHALL. Thank you, Mr. Chairman. Earlier, the Chairman, following up on what the Committee Chairman asked, had each of you give your position on AGI. Could you do the same thing real quickly for the three-entity rule? What is your view on the three-entity rule? I think I know cotton's view.

Mr. PUCHEU. Yes, cotton supports the three-entity rule.

Mr. MCCAULEY. We support the three-entity rule.

Mr. GERTSON. We support the three-entity rule.

Mr. OSTLIE. Yes, we support the three-entity rule.

Mr. RUSSELL. I think it is unanimous. You know, we support the three-entity rule, too.

Mr. THAEMERT. Absolutely.

Mr. MARSHALL. The question that I asked, you would expect the same answer from all of the different ag groups? Is there any ag group that you know of that is on the other side of that issue?

Mr. OSTLIE. I don't think there would be one that is in the commodity title, no.

Mr. MARSHALL. Okay. Mr. McCauley, I would like to focus on your organization's proposal for this counter-cyclical program. I am only now becoming familiar with it. It is the first I have seen it and I just read through your testimony, and I am sorry I wasn't here when you gave your testimony earlier. No doubt you have had discussions with your comrades here, at least your staff has had discussions. Could you summarize the arguments that are made against your concept by others? Because I imagine you have been floating this around and a number of people have offered their comments.

Mr. MCCAULEY. Well, it will be hard for me to talk about something that is against it. I usually try to look at the positive side.

Mr. MARSHALL. Yes, and unfortunately, I am up here and I get to ask you questions and you pretty much have to answer. Well, you know that is going to shorten this considerably if you could identify, because you already know what they are, the primary arguments against what you are proposing and then address those arguments. Put them on the table so that we understand what people are saying is weak about your proposal.

Mr. MCCAULEY. I think we have a different issue with wheat on the idea that the direct payment is a different climate and they had totally different issues on how their crop has increased in yield *versus* ours. So I have talked to these individuals quite a bit. John and I live in Kansas. Two hundred miles is a pretty close distance, so we live and we understand——

Mr. MARSHALL. That is because you all can see one another, because there are no hills in Kansas.

Mr. MCCAULEY. If I can see over that hill right west of me, I can see quite a ways. But the direct payment issue is different in our philosophy *versus* wheat, because you have a regional difference on how they do business, plus, the wheat has the difference in their, which yields haven't progressed. I contend that in the future, wheat, they will get to address the yield. Their yields will go up. We have tried to take the approach with both of these commodities, their only commodities, that we understand what they are talking about that we can fit into the program of each other's commodity. Soybeans. Rick and I have talked and their issue is that their price could go lower than corn at this time. I think that is the reason they probably focused on the price aspect. I sure don't want to speak for them, but our proposal——

Mr. MARSHALL. Could I interrupt?

Mr. MCCAULEY. Sure.

Mr. MARSHALL. Are you contemplating a commodity-by-commodity county price support, essentially? Or is it just one——

Mr. MCCAULEY. No.

Mr. MARSHALL. Okay.

Mr. MCCAULEY. Our hope is that we can get all the commodities together on this and you know, see where the issues really are. That is our hope.

Mr. MARSHALL. Well, I guess maybe I don't understand your proposal. Is your proposal that a target price be set in each different commodity?

Mr. MCCAULEY. Yes.

Mr. MARSHALL. Okay.

Mr. MCCAULEY. As a revenue instead of just as a price, because we focused on the price. Price trigger is revenue trigger when you are at these levels, because you have more exposure to risk at this level and the price support today is at the lower level.

Mr. MARSHALL. Have your economists done an analysis assuming that if this were adopted as the national farm program, an analysis of cost?

Mr. MCCAULEY. Yes.

Mr. MARSHALL. And how does it compare to——

Mr. MCCAULEY. We think where we are today, which is I think we are solid on where we are today at $500 million approximately over the baseline.

Mr. MARSHALL. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. I thank the gentleman. Now the gentleman from California, Mr. McCarthy, for 5 minutes.

Mr. MCCARTHY. Thank you, Mr. Chairman. I just have two follow-up questions for some others. If I could just follow up with Mr. Pucheu from the National Cotton Council. You commented and I have seen it in my district, declining cotton being grown. Is it mainly the market driving these decisions that are being made?

Mr. PUCHEU. It is market driven and the economics of crops that have a better return. We are fortunate in California. We have a lot of different options as compared to a lot of areas of the country.

Mr. MCCARTHY. And I have just one for everybody else. I want to follow up on what the Chairman asked about adjusted gross income. Overwhelmingly, the majority do not support the Administration position of $200,000, knowing now that it is $2.5 million and 75 percent of your income has to come. Would you recommend to keep it exactly like that or would you recommend any other change to it if you disagreed with going to the $200,000?

Mr. PUCHEU. We are happy with the current policy.

Mr. MCCARTHY. And is the current policy successful, do you think it corrected what we wanted it to?

Mr. PUCHEU. I think so, in keeping people that have very high income from outside of agriculture away from the payments.

Mr. MCCARTHY. Okay.

Mr. MCCAULEY. If I could comment? Being the different one of the group, I think that an adjusted gross income, and I would disagree on the price, because I don't think we know what the adjusted gross income should be today. But any time you get to work with a net income figure *versus* a hard cap of the dollar amount, as a farmer, you have to think that it might be a better way to look at it. That is where I was coming from with the possibilities, because right now, if you deal with a person that, say, it is a $2.5 million hard cap, we could actually have a gross income of that much but not make any money. So that is where I was coming from. I think the concept itself has some merit if we figure out how it could work and the number.

Mr. GERTSON. I do not think the $200,000 limit will work. I think $2.5 million was more in line with what we need to have, and also, we need to keep the 75 percent exemption, 75 percent of farm income. I think you should be exempt from either one of them. But the $200,000 is way too low.

Mr. OSTLIE. I guess we would also agree that the $200,000 is too low and we would support staying with the same limits we have now.

Mr. THAEMERT. Yes, the $200,000 is too low. You are going from $2.5 million to $200,000 and even if you talk about net income, if you are talking about a young producer that is buying land and is buying equipment, the principal payments, you cannot deduct the principal payments. You can deduct interest, you can deduct depreciation, you can do those things, but when you are making a principal payment, you are trying to grow your operation. Yes, you are going to run into the $200,000. You very easily could run into that $200,000 limit. One year you would be in it, the next year you would be out. How do you go to your creditor and say, "Well, this is what I have and this is my cash flow?" I can understand the public relations drive behind doing that, but that is too drastic a step, from $2.5 million to $200,000. Wheat Growers is fully behind the current legislation and thinks it is fair and effective.

Mr. MCCARTHY. I appreciate it and yield back the balance of my time.

The CHAIRMAN. I thank the gentleman. The gentleman from the Dakotas, Mr. Pomeroy——

Mr. POMEROY. Mr. Chairman, thank you very much and I enjoyed the—it is a very articulate——

The CHAIRMAN.—for 5 minutes.

Mr. POMEROY. Yes, sir. Point noted. This is an articulate and interesting panel and I have enjoyed these responses. Mr. Thaemert, you can't tell me you got a lot of wheat growers, especially beginning ones, that are cracking that $200,000 AGI.

Mr. THAEMERT. No, what I am saying is that the drop from $2½ million to $200 thousand is dramatic.

Mr. POMEROY. That is a dramatic drop.

Mr. THAEMERT. And there could be issues where——

Mr. POMEROY. You went on to tell us you have a lot of beginning farmers, that they are going to be stumbling around that $200,000 AGI. Unless there is something tremendously different about wheat production in Kansas than North Dakota, I don't get it.

Mr. THAEMERT. Well, if Dale Schuler wanted to turn over his, well, he is in North Dakota. And let us just say that one of your constituents in North Dakota was trying to sell his farm to his children as a way to make his retirement, and having to make those payments of machinery and land, there could be an issue where you are trying to provide an income for your family, plus pay off those principal payments. You could very easily creep over that limit and the problem is 1 year you are in, 1 year you are out.

Mr. POMEROY. That is right.

Mr. THAEMERT. You could hopefully, hopefully have a decent year where you can get in that good lick to cover a lot of those expenses and expand.

Mr. POMEROY. I am not for the Secretary's proposal. I think that it is too low. But on the other hand, I couldn't quite understand what you were saying there. I had to——

Mr. THAEMERT. I hope I explained it a little better. You know, why do we expect a retiring farmer to give his farm away? You know——

Mr. POMEROY. Now wait a minute. I have your answer. Let us just not overstate the point. We don't have that many wheat farmers making more than $200,000 AGI. And maybe the other commodities have different things, but I know a little bit about wheat. That one isn't going to cut us that bad. I am not sure it is good policy. But let us get to, and I want to talk to my constituent here, Mr. Ostlie. We are very proud of your leadership of the Soybean Council.

Mr. OSTLIE. Thank you.

Mr. POMEROY. And it is a very important year in this commodity, so for you to have the helm right now makes us all very proud indeed.

Mr. OSTLIE. Thank you.

Mr. POMEROY. Let us talk about the balance between loan rates, soybean to wheat. And the question I have to you is, under your proposal, it looks like the wheat target price would climb to $4.15. Wheat stated that is not high enough to keep the acreage in wheat, in light of the other things, the higher-value commodities that are available to grow right now. Do you have any response to that?

Mr. OSTLIE. Yes. I said earlier, over the past 20 years, I have actually raised more acres of wheat than soybean.

Mr. POMEROY. I have read that you have, yes.

Mr. OSTLIE. Yes. And wheat has got a unique problem. I don't really know what the answer is. I think the wheat problem goes way beyond the farm program. We have a lot of countries in the world that can grow wheat and grow it pretty efficiently. I just don't know at what point and how we stop the wheat problem. But—commodity and soybeans, I don't want farmers making decisions on what they plant based on the farm program, and I feel right now, the way the farm program is set up, the 2002 farm program, soybeans at $5.36 is the effect of the target price when you take off the direct payment. I would lose a lot of money at that, and the point of it is, is that we need to have it balanced or "adjusted," is what I guess the word is that we have been using. With balancing, we are not looking to bring down other commodities, but an adjusted rate so that we are more at an equal level throughout the commodities. When I go to make my decisions on what I plant, and my neighbors, I don't go to the bank and the banker will say, "Well, I want you to plant more edible beans or corn or some other crop, because the farm program guarantees you a profit."

Mr. POMEROY. Thinking about the farm program essentially as insurance protection against price collapse, you would like a similar level of protection across the commodities?

Mr. OSTLIE. Right.

Mr. POMEROY. To me, it makes a lot of sense.

Mr. OSTLIE. And you know, a lot of this is a conceived value and that is part of the problem. Right now, we may have soybeans that are not going to go below even at a $6.85 loan rate or whatever the target price may be. You know, nobody spent on counter-cyclicals. But when you go into the banker, they always look at the worse case scenario and suddenly you have to conceive in your mind that maybe next fall soybeans might drop and corn might drop. "Aha, I better raise corn because it has got a better support level, or some other crop." And I think a lot of times it is a conceived value as much as it is actual market price. So we want to have a market price that has that guarantee there.

Mr. POMEROY. Mr. Chairman, my time is up and I yield back.

The CHAIRMAN. I thank the gentleman. Let me take this opportunity to thank each of our panelists for your thoughtful comments, for answering the questions. But before we dismiss you, I would yield to the gentleman from Kansas for his final comment.

Mr. MORAN. Mr. Chairman, I finally found an advantage to you being the Chairman of this Subcommittee as compared to me, because Mr. Pomeroy never ended his comments under my regime. He would speak minutes beyond and then yield back the balance of his time. So you have greater authority over him than I ever had. I also want to point out that today we are eating North Carolina peanuts, which is also a change in this Committee, and I would indicate to Mr. Russell that last year, and maybe we can correct this, for the last 2 years we have been eating Kansas gold sunflower seeds. If we could get back to the days of sunflower seeds, we would all, well, I shouldn't say that. We would appreciate the variety.

The CHAIRMAN. The gentleman's time has expired. No, thank you. And let me thank each of you, because you have been very helpful. As you understand, we will have a challenge, but working together we are going to make sure, as I have said to a number of folks, Jerry and I work very closely together. Having a farm policy is important to this country if we want a good food supply, a plentiful food supply, and by and large, a cheap food supply for the American consumers. Thank you for your part in that process. And you are excused and now we will ask the second panel to come and join us.

Okay, if we can get everyone seated, we will be ready to proceed with our final panel. Let me thank each of you for being here and just remind each of you that your full statement will be submitted for the record and if you would summarize it within 5 minutes and we will move along. Our first panelist is Mr. Larry Mitchell, who is the Chief Executive Officer of the American Corn Growers Association; and our second witness will be Mr. Evan Hayes, President of the National Barley Growers Association; the third panelist is Mr. Jim Evans, Chairman of the USA Dry Pea and Lentil Council, from Iowa; and Mr. Greg Shelor, Past President of the National Sorghum Producers, from the great State of Kansas. Mr. Mitchell, you are recognized for 5 minutes.

STATEMENT OF LARRY MITCHELL, CEO, AMERICAN CORN GROWERS ASSOCIATION

Mr. MITCHELL. Thank you, Mr. Chairman, Congressman Moran, other Members of the Committee. I am here representing the American Corn Growers Association and I may give a slightly different version of what we think should be in the farm bill than some of the previous panel members. But we know that everyone in this room has pledged at one time or another that you are going to write this farm bill and it is not going to be written at the WTO, and we commend you for that commitment and we are here to help you make that commitment.

You know, about 2 years ago, Secretary Johanns started off across the country asking seven important questions about the farm bill, and the American Corn Growers has been doing the same thing. In fact, I just got back Sunday night from a 3,800 mile, seven state, seven meeting tour in 9 days and we posed these same questions. Those questions are, are farm bills getting better? The sounding answer is no. Are farm bills getting more or less complicated? They are more complicated. Are we keeping people on the land? No. Are our rural communities improving? No. Are we exporting more? No. For those people that support the current farm bill, what do they find is the weakest link in that farm bill? And they will tell you that there is just not enough money in it. So the follow-up question has to be, are we going to have more or less money in the next farm bill? The answer that you have stated today, Mr. Chairman, is less. So given those questions and the resounding responses that we received over the past 4 or 5 months at the various meetings that we have held, we have to assume through deductive reason that it is time to rethink U.S. farm policy and change course to help, not only U.S. farmers, but farmers globally.

Part of our work working towards this started nearly 6 years ago when a group of farmers got together and identified three things about farm policy that we needed to address. We did the analysis on that and we asked for a review of that analysis by the Agriculture Policy Analysis Center at the University of Tennessee. Those three things were: first, we knew that farmers farm. Farmers will farm every acre every year and they will produce every bushel and every pound, regardless of whether the price is high or low, or regardless of the subsidy. The second thing is that low prices does not reduce overproduction, and the third thing is that low prices have not expanded our exports. The fourth thing that we found out is just the simple elimination of U.S. farm subsidies does not help farmers in other countries. It only devastates our farmers, our rural communities, our rural banking system, and will have a downward turn on the U.S. economy. What we need to do is to replace those subsidies with a support system.

Working with the National Family Farm Coalition and some 60 other organizations from the farm, rural, environmental and the faith sectors, we have drafted the Food From Family Farm Act. The three key items for title I under that Act would be to return to the nonrecourse loan as opposed to the marketing loan, so that we can support the price as opposed pay out subsidies. This would relieve us of the burden of direct payments, counter-cyclical payments, marketing loan gains and loan deficiency payments. And for those of you that are conservative, and especially the blue dogs that have been working hard to figure out how to balance this budget and write a farm bill within the budget constraints, this may be your best option. The second thing that we need to work towards is reestablishing a grain reserve. Our country went to war 4 years ago with a 30 day supply of petroleum in the Strategic Petroleum Reserve, and a 5 hour supply of corn in the Commodity Credit Corporation. We need to address that. The third thing, we need to find a way of curbing overproduction from those crops that are traditionally overproduced. That is why we support Chairman

Peterson's plan for a cellulosic reserve to move crops that have traditionally been overproduced into new dedicated energy crops.

One last point before we run out of time. We also support Congresswoman Herseth's bill, H.R. 1649, that prohibits the closing of county Farm Service Agency offices until after this farm bill has been written, enacted and implemented. Until we get the computer system fixed at FSA and figure out what this farm bill is going to do, it is not the right time to be closing county offices.

In conclusion, the Food From Family Farm Act provides a better safety net for farmers, it saves money and those savings can be used to fund the Conservation Security Program, and expanded energy title, and many other titles of the farm bill. Thank you, sir.

[The prepared statement of Mr. Mitchell follows:]

PREPARED STATEMENT OF LARRY MITCHELL, CEO, AMERICAN CORN GROWERS ASSOCIATION

Introduction

Chairman Etheridge, Ranking Member Moran, and Members of the Subcommittee on General Farm Commodities and Risk Management, I am Larry Mitchell, Chief Executive Officer of the American Corn Growers Association (ACGA).

We are pleased and honored to have been extended the invitation and opportunity to appear before this Committee today. It has been over 6 years since ACGA has been afforded this courtesy before any Committee associated with the U.S. House Committee on Agriculture.

The ACGA has long recognized the daunting task Congress faces in writing our new farm bill, a task made particularly difficult because of the deepening economic depression endured by family agriculture and rural communities in the United States. A primary goal of our organization is to provide leadership on this new farm bill, through positive and specific suggestions for change. Therefore, on behalf of the 14,000 members of the ACGA, I would like to present our views and suggestions on the crop provisions of the Farm Security and Reinvestment Act of 2002 to this Committee today.

We wish it noted that our farm bill proposal for the crop title of the next farm bill is much more than a corn proposal. We have always attempted to represent the interests of not only corn farmers, but also all those in agriculture. We believe that all family farmers must work together to find a farm policy that restores prosperity to family farmers and ranchers of all types.

We also understand that corn is the most widely grown crop in the U.S. and has by far the largest production volume of any commodity. It has the largest livestock feed usage, and the largest industrial usage. Therefore, we recognize that feed grain policy has a huge impact on all commodity prices, and also directly impacts the structure of the dairy and livestock industries. The commodity title also impacts our rural communities, our environment, our food system and our Federal budget more than any other sector of the overall farm bill.

This is why we have been working with scores of other farm, rural, religious, international, environmental, and wildlife groups over the past year to advance the Food from Family Farm Act (FFFA) with the National Family Farm Coalition and some sixty other organizations. We will present the basic concepts of the FFFA today and ask for your consideration and support for the plan as you advance your endeavor in drafting this year's farm bill. But first, we are obliged to request your consideration of a broader review of which direction we should choose in the next farm bill.

In addition to our support for the FFFA, we take this opportunity to state that ACGA also supports the following farm bill provisions:

- Retention and expansion of the Conservation Reserve Program (CRP),
- Full funding and deployment of the Conservation Security Program (CSP),
- Expansion of the energy title of the farm bill,
- Establishment of a standing disaster program,
- Development of a Cellulosic Reserve Program,
- Extension of the Milk Income Loss Contract (MILC),

- Inclusion of a competition title similar to Senator Tom Harkin's Agricultural Fair Practices Act,
- Implementation of the current Country of Origin Labeling (COOL) provision of the 2002 Farm Bill, and
- Improved delivery and full funding of programs targeted toward limited resource and socially disadvantaged farmers and ranchers.

Ten Questions That Must Be Answered Before We Draft the 2007 Farm Bill

Over the past year, we have been asking the questions listed below of farmers and others in rural America and the answers to these questions have been almost unanimous.

Question—Are farm bills getting better or worse?
Answer—Worse!

Question—Are farm bills more or less complicated?
Answer—Much more complicated!

Question—Are we keeping more or fewer families on the land?
Answer—Fewer families are on the land!

Question—Are our rural communities improving?
Answer—No!

Question—Are we exporting more?
Answer—No!

Question—Are farm bills getting more or less expensive?
Answer—More Expensive!

Question—For those that actually support the current farm bill, what do they identify as the biggest problem?
Answer—It needs more funding!!

Question—Will we have more or less funding for the next farm bill?
Answer—Less!

Question—If we don't change course on U.S. farm policy, will the next farm bill be better or worse?
Answer—Worse!

Question—Why don't we take a serious look at changing course?
Answer—We must change course to insure the livelihoods of all farmers in the U.S. and around the world.

A New Course for U.S. Farm Policy—The Food From Family Farm Act (FFFA)

We must change the course of U.S. farm policy. As a part of the Building Sustainable Futures for Farmers Globally campaign on the new farm bill, sixty organizations (see list in appendix) have endorsed the FFFA and many others are planning to join in the near future.

The Building Sustainable Futures for Farmers Globally campaign calls for U.S. agricultural and trade policies that:

- Ensure food sovereignty,
- Curtail overproduction, raise low commodity prices and end dumping abroad,
- Advance sustainable bioenergy production,
- Promote healthier food through community-based food systems,
- Diminish inequalities both among and within countries and support small scale, family oriented agriculture,
- Transform U.S. food aid policies to promote more flexible and comprehensive aid to developing countries, and
- Respect the rights of immigrants and farmworkers.

FFFA is still a work in progress, but will encompass the following provisions for title I, the commodity title;

1. Reestablishment of the nonrecourse loan program to provide a floor price at the full cost of production for the major, strategic commodities and relieve the burden of tens of billions of dollars in subsidies from the shoulders of America's taxpayers.
2. Reestablishment of a U.S. reserve of the basic storable commodities and a significant portion of that reserve should be a Farmer Owned Reserve (FOR) for:

- Domestic Food Security,
- Domestic Energy Security, and
- International Famine Relief.

3. Reauthorize the Secretary to manage over-production and price-depressing surpluses by providing incentives to plant dedicated energy crops on acres which are now, or may be, produced in surplus.

Background on the Food from Family Farm Act

The Agriculture Policy Analysis Center (APAC), at the University of Tennessee, Knoxville, a land-grant university, and ACGA released the groundbreaking research report *Rethinking U.S. Agriculture Policy: Changing Course to Secure Farmer Livelihoods Worldwide* in the fall of 2003 (a copy has been provided with this testimony).

ACGA has worked closely with APAC on this analysis and will continue to advance its findings and seek solutions to the inadequacies in U.S. farm policy identified therein. We ask you to thoughtfully review this research, and to consult closely with its authors, Dr. Daryll Ray, Dr. Daniel De La Torre Ugarte and Dr. Kelly Tiller.

The report concludes that even if the difficult task of negotiating the elimination of global farm subsidies is completed, family-based agriculture will continue to spiral downward as a result of continued low commodity prices. This report goes comprehensively to the heart of the ever more contentious trade issues of farm subsidies in developed countries, low world commodity prices, and global poverty.

The Genesis of the APAC report came from a group of corn farmers at ACGA. For many years, we had been pondering how to quantify several key points that we, as farmers, have observed.

First—Farmers farm. They farm every available acre and produce every pound, bushel or hundredweight possible. That's what farmers do. They will produce as much as they can when prices are high to maximize profits. They will produce as much as they can when prices are low to service debt and survive.

Second—While low prices in many sectors of the economy may drive producers out of business, reduce production and put it back in line with demand, we find that, although farmers are put off the land with low prices, the land stays in production.

Third—Low prices have not expanded our exports and are detrimental to farmers, not only in the U.S., but also around the globe.

Government has been involved in agriculture policy since the beginning of recorded history by expanding production, improving technology, managing stocks, establishing weights and measures, supporting prices, etcetera. There were those 7 fat years followed by 7 lean years. The Chinese started a grain reserve program in 54 B.C., and operated it for 1,400 years. When government-backed military force removed the indigenous people from the land on our continent, government was again expanding agricultural production. The same can be said of the transcontinental railroad, where the government gave away miles of land on both sides of the tracks for settlement and, later, crop production. Then we had the homestead programs, USDA's research and development, land-grant universities and even the Federal interstate highway system, which means that today 4,000 head dairies in New Mexico drive down the price of milk in Wisconsin.

Let me repeat this point—government has been involved in agriculture since the beginning of recorded history—and will continue to do so. We must change course to make government involvement in agriculture work for all of us, not just the processors, vertical livestock producers and merchants.

A good farm program includes not only a good commodity program, but also good programs for conservation, research, rural development, nutrition, credit, and etcetera. Having said that, let me point out the three components of a good commodity program as we envision it:

1. **Price support, not subsidies,**
2. **Tools to manage stocks, and**
3. **Tools to manage over-production.**

Price Support

I know many of you may feel that the difference between price supports and price subsidies seem like a semantic splitting of hairs. But I can assure there is a great difference. The biggest difference is who pays. The user pays for the support and the government, i.e. taxpayers, pays for the subsidy. The best analogy I can give you to share with your urban friends is the difference between the minimum wage, a support program, and food stamps, a subsidy program. And you do not have to be an economist to realize that if we increase the support program, we can reduce or eliminate the subsidy program.

One of the timeliest discoveries in Dr. Ray's work, during these times when so many developing nations are demanding an end of U.S. farm subsidies as a way to improve the economic situation for their farmers, shows that the simple elimination of U.S. subsidies will not help. Such a policy change would devastate U.S. farmers and would even reduce the prices for some commodities worldwide. What would help is a policy to improve prices in the U.S., a world price setter for many commodities, and thereby help farmers worldwide.

Managing Stocks

Managing stocks is not a new government policy. From the Joseph Plan as Henry A. Wallace called the 7 fat years, 7 lean years program, to his Ever Normal Grainery, to the Chinese program I mentioned earlier up to the Farmer Owned Reserve (FOR) we lost in the 1996 Farm Bill, governments have previously provided the tools to manage stocks with positive results.

One last note on government stocks from the ACGA farmer view of agriculture economics. Did you realize that when our nation went to war 4 years ago this month, we only had 5 hours worth of corn in the CCC reserve? We only had 8 hours worth of soybeans and 11 days worth of wheat. We had 30 days supply of petroleum in the Strategic Petroleum Reserve, but only 5 hours worth of corn. We support the President's initiative announced during his 2007 state of the union address to expand the Strategic Petroleum reserve and we ask your support for a Strategic Grain Reserve.

Managing Overproduction

Tools to manage production are available and used by most every sector of the economy. The generals all use production management—General Dynamics, General Electric, General Foods, General Mills and General Motors. Even both the House and Senate Agriculture Committees believe in production management by government. During the last farm bill deliberation, they spent hours discussing the loan rate. Their concern was that the higher the loan rate, the more incentive producers have to produce more. An erroneous assumption as reported in the APAC study. But given the fact that they decided to keep the loan rate low in order to curb overproduction, it is clear that they support government tools to manage production. Recently the Bush Administration also recommended a similar proposal to manage production by lowering loan rates. It is evident that most everyone involved in the farm policy debate supports supply management, but lowering the loan rate is not the best solution to this issue.

ACGA does not advance the notion that the Acreage Reduction Programs (ARP) of the past as the best way of managing overproduction. Nor do we advance the adoption of any production controls until a viable reserve is established as defined above. We do promote giving farmers tools to voluntarily manage "free stocks" as a primary way to improve farm price within a market-based system.

We also see a need for a policy to advance the cultivation of more energy crops in order to provide alternatives to the over-planting of crops in surplus. Bio-energy crops should be a key in any future U.S. farm policy and additional user incentives should be considered for their advancement. This is why we are endorsing Chairman Peterson's proposal for a Cellulosic Reserve Program to provide incentives for farmers to move crop acres which have traditionally been planted to crops in surplus into dedicated energy crops. To understand how this initiative would impact future production management, we suggest a review of the cultivation of soybeans over the past half century. Fifty years ago, few if any soybeans were planted in the U.S. In recent years, annual soybean plantings have exceeded 70 millions acres. We need to ask just how bad would corn, wheat and cotton prices have been in past years had we not planted over 70 million acres of soybeans. What we need in the future is a portfolio of dedicated energy crops to provide the same type of planting alternatives provided by soybeans over the past half century for the next half century.

FFFA and the Federal Budget

With the current improvements in commodity prices, almost any farm program will work within the budget constraints faced by this Committee. But we have no conclusive evidence as to whether the new farm gate prices are a bubble, a new plateau or even a new escarpment. Therefore, we must find a way to utilize our baseline smarter and raise the farm safety net above the pavement in the event current prices are a bubble.

Because the FFFA's reestablishment of the nonrecourse loan program provides a floor price at the full cost of production for the major, strategic commodities, we would relieve the burden of tens of billions of dollars in subsidies from the shoulders of America's taxpayers. By setting a floor price on our commodities, we would alleviate the need for Loan Deficiency Payments (LDPs). Marketing Loan Gains (MLAs), Counter-Cyclical Payments and Fixed Payments. There would be some spending required to manage the strategic grain reserve and the cellulosic reserve program, but these expenditures would be very nominal when compared to the savings realized in other areas. Short of providing a full scoring of the initiative which is not available at this time, we suggest that based on previous expenditures, the FFFA could save $10 to $20 billion annually. Such Federal budget savings should be considered closely with any Member of Congress claiming to be a Budget hawk—be they conservative Republicans or Blue Dog Democrats. The savings realized by this change in course for farm programs would also provide the resources for fully funding the Conservation Security Program (CSP), expansion and full funding of the farm bill's energy title, funding for the Chairman's standing disaster program, livestock assistance programs and *et cetera.*

FFFA and the World Trade Organization

Many in Congress, including several Members of this Committee, have said that the Congressional Agricultural Committees are going to write the 2007 Farm Bill, not the World Trade Organization. ACGA supports that position. We also suggest that the U.S. advance the FFFA to our negotiators currently engaged in the Doha Round of WTO negotiations, and suggest a review by the WTO of FFFA. We predict that if the U.S. were to advance a program of higher prices, supply management and production management, it would be embraced by the developing countries as well as the developed countries as a superior alternative. Let's take a proposal to the table to raise world prices, eliminate subsidies and enhance the livelihoods of farmers globally and see how much interest it garners.

While our farm and trade policy makers have decided time and time again that low prices are the most prescribed cure for our lagging competitiveness in global markets, farmers and livestock producers find that cure to be their biggest disease. To defeat the disease of low prices we need policies that improve prices in the U.S. and around the world, establish adequate food reserves and address production adjustments to enhance production of crops in short supply in favor of crops in surplus. There are efforts already underway to bring about such international cooperation on supply management, but those efforts have been limited to the academic and NGO sectors. We need our policy makers to engage in these discussions as well and we suggest that this Committee hold a separate hearing to review this critical issue.

Program Delivery

ACGA warns that until we know what programs will be contained in the new farm bill or how it will be administered, and until Farm Service Agency (FSA) computer problems have been mitigated, it is ill-advised to reduce the FSA farm program delivery platform. We urge Congress to postpone any county office closures or reductions in staff until after the farm bill has been passed, enacted and deployed and that a real solution to the antiquated computer system are likewise deployed.

Conclusion—One Last Question That Must Be Answered Before We Draft the 2007 Farm Bill

Given the new course we have just recommended for the 2007 Farm Bill, and the current farm bill, which one is better for:

- Farmers?
- Consumers?
- Taxpayers?
- The Environment?
- Rural Communities?
- Farmers in developing countries?

Or, which one is better for:

- The integrated livestock industry?
- The international grain traders?
- The food processors?

We are not asking "which of these farm bills will the Congress pass?" We are asking "which of these farm bills will be better and for whom?" Once we ascertain how Members of Congress feel about which farm bill is better for whom, we will then help answer the question "what will the Congress pass?" I am not asking for your answer today, but I am asking you to look closely at our proposal and formulate your answer prior to drafting our new farm bill.

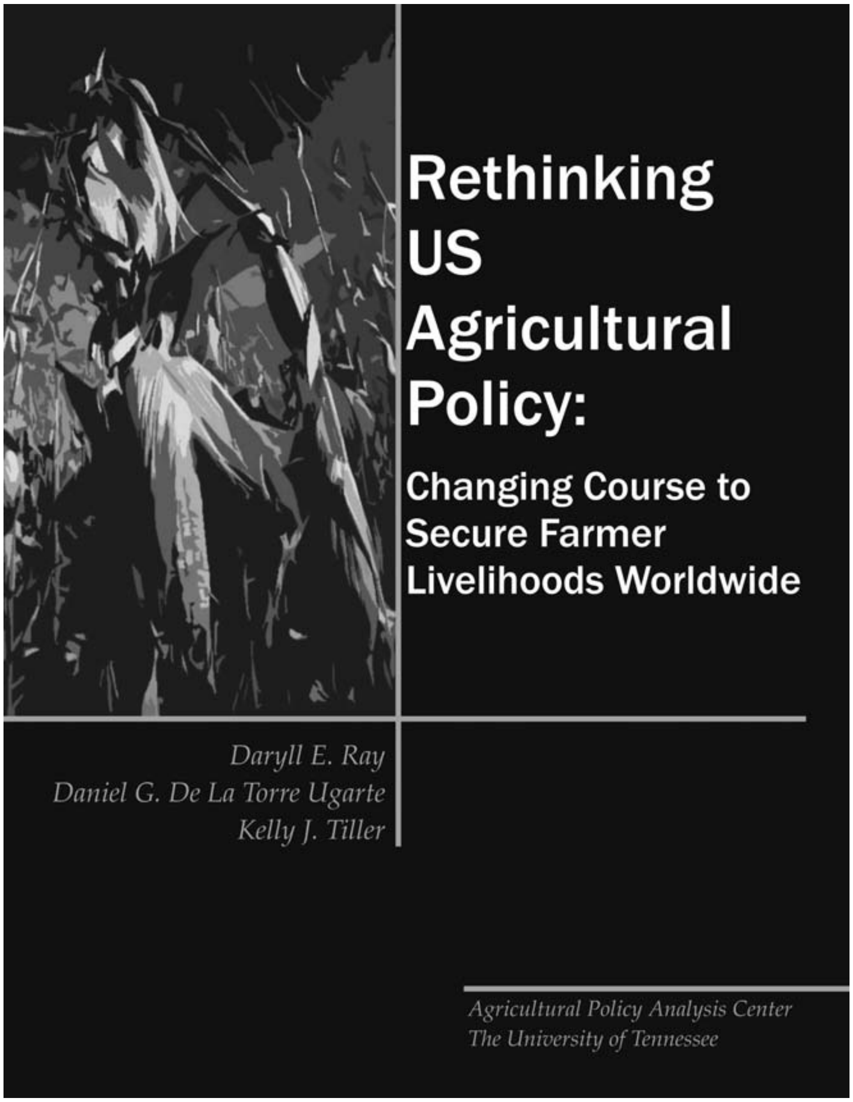
Appendix

Organizations endorsing the Food from Family Farm Act (FFFA) as part of the Building Sustainable Futures for Farmers Globally campaign's farm bill initiative.

American Agriculture Movement, Inc.
Action Aid USA, Washington, D.C.
Federation of Southern Cooperatives/Land Assistance Fund, Atlanta, Ga.
Friends of the Earth U.S., Washington, D.C.
Institute for Agriculture and Trade Policy, Minneapolis, Minn.
National Family Farm Coalition, Washington, D.C.
Rural Coalition/Coalición Rural, Washington, D.C.
Farm & Food Policy Diversity Initiative, Washington, D.C.
National Campaign for Sustainable Agriculture, Pine Bush, N.Y.
American Corn Growers Association, Washington, D.C.
Maryknoll Office of Global Concerns, Washington, D.C.
Alliance for Responsible Trade, Washington, D.C.
Church World Service, Elkhart, Ind.
Heifer International, Little Rock, Ark.
RAFI–USA, Pittsboro, N.C.
NETWORK/A National Catholic Social Justice Lobby, Washington, D.C.
Agricultural Missions, New York, N.Y.
Grassroots International, Boston, Mass.
Family Farm Defenders, Madison, Wisc.
World Hunger Year, New York, N.Y.
SHARE Foundation: Building a New El Salvador Today, Washington, D.C.
Quixote Center/Quest for Peace, Hyattsville, Md.
International Labor Rights Fund, Washington D.C.
Food First/Institute for Food and Development Policy, Oakland, Calif.
World Neighbors, Oklahoma City, Ola.
Food & Water Watch, Washington, D.C.
Ecumenical Program on Central America and the Caribbean (EPICA), Washington, D.C.
Organization for Competitive Markets, Lincoln, Neb.
Land Stewardship Project, White Bear Lake, Minn.
Land Loss Prevention Project, Durham, N.C.
Missouri Rural Crisis Center, Columbia, Mo.
Campaign for Family Farms and the Environment, Iowa Citizens for Community Improvement, Des Moines, Iowa
Oakland Institute, Oakland, Calif.
The Second Chance Foundation, New York, N.Y.
Sustainable Agriculture of Louisville, Louisville, Ky.
Oklahoma Black Historical Research Project, Oklahoma City, Okla.
Center of Concern, Washington, D.C.
Sisters of the Holy Cross, Notre Dame, Ind.
United Church of Christ, Justice and Witness Ministries, Cleveland, Ohio
California Black Farmers and Agriculturalists, Sacramento, Calif.
Cumberland Countians for Peace & Justice, Pleasant Hill, Tenn.
Caney Fork Headwaters Association, Pleasant Hill, Tenn.
Network for Environmental & Economic Responsibility, United Church of Christ, Pleasant Hill, Tenn.
Corporate Agribusiness Research Project, Everett, Wash.
Center for a Livable Future, Johns Hopkins Bloomberg School of Public Health, Baltimore, Md.
Columban Justice, Peace, and Integrity of Creation Office, Washington, D.C.
Ohio PIRG, Oberlin College Chapter, Oberlin, Ohio
Ladies of Charity of Chemung County, Elmira, N.Y.
Church Women United of New York State, N.Y.
Catholic Daughters of the Americas, Corning/Elmira, N.Y.
Missionary Oblates of Mary Immaculate Justice, Peace and Integrity of Creation Office, Washington, D.C.

International Endorsements

National Farmers Forum, New Delhi, India
Mexican Action Network on Free Trade, Mexico City, Mexico
Instituto Runa de Desarrollo y Estudios sobre Género, Lima, Peru
Small Farmers of Jalapa Coopereative, Jalapa, Nicaragua
Lokoj Institute, Dhaka, Bangladesh
Fiji AgTrade, Suva, Fiji
Observatorio de la Deuda en la Globalización, Cataluña, Spain



Rethinking US Agricultural Policy:

Changing Course to Secure Farmer Livelihoods Worldwide

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Rethinking US Agricultural Policy:

Changing Course to Secure Farmer Livelihoods Worldwide

Disastrously low prices are plaguing farmers worldwide. A deliberate shift in American agricultural policy in the 1990s has paved the way for these depressed crop prices with no mechanisms in place to change the situation. Prices declined after 1996 because that year's Farm Bill dropped several traditional, crucial safeguards for managing supply and supporting prices.

Conventional wisdom suggested that American agriculture could look forward to a sound future of expanding demand for farm exports. It was thought that the agricultural industry had developed enough to fend for itself, unfettered by restrictive government programs. That wasn't how it worked out.

Since US policies influence the fate of farmers well beyond our borders, policy approaches addressing the needs of US farmers should recognize our larger global influence.

This study

- Explores why the changes in US policy brought about by the 1996 Farm Bill produced declining revenues;
- Demonstrates that the solution to global low prices involves considerably more than just eliminating subsidies; and
- Introduces a policy blueprint that would raise crop prices universally, thus contributing to a healthy and vigorous worldwide agricultural industry.

Changing US policy alone cannot solve the global crisis in agriculture, but it is an important step toward a global cooperative solution that can benefit farmers around the world.

September
2003

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EXECUTIVE SUMMARY

Perhaps at no other time in history has so much attention from outside the United States been focused on what is ostensibly a domestic matter—US agricultural policy. And with good cause. Since the late 1980s, but particularly since 1996, the US government's official policy has been to permit, even encourage, a free fall in domestic farm prices while simultaneously promoting rapid liberal trade measures to open new markets for US products.

US farmers, the intended beneficiaries of these policies, have languished, despite official rhetoric to the contrary. Meanwhile, major agribusinesses have thrived, while aggregate US exports remained flat, and farmer income from the marketplace declined dramatically. The precipitous decline in prices of primary commodities, especially grains, is providing agribusiness and corporate livestock producers access to agricultural commodities at below the cost of production, consolidating their control over the entire production and marketing chain.

Today, farmers the world over face an agricultural crisis of immense scope and gravity.[1] Plummeting world prices have followed the US lead, where prices of primary agricultural exports (corn, wheat, soybeans, cotton, and rice) declined by more than 40 percent since 1996. US farmers continue to be forced off the land despite a massive infusion of government payments intended to compensate for lower prices. The impact on farmers in other countries has been even more devastating. From Haiti to Burkina Faso, the Philippines to Peru, these unprecedented low prices have destroyed livelihoods and reaped a harvest of desperation, hunger, and migration.

Solutions to this alarming predicament for the world's farmers depend entirely on how one interprets and understands the responses to two key questions: How do farmers' planting decisions respond to price signals? How do their domestic and export customers respond to price signals? In answering these questions, this paper demonstrates that, in the aggregate, neither crop supply nor crop demand is very responsive to changes in price. A thorough analysis of the historical data on US policy and its influence reveals the truth of what impact that policy has had on farmer incomes. Farmers have tended to respond by doing what they know best: plant and produce more food, guaranteeing their continued financial distress.

Clearly, stopping this cycle requires more than most critics of US policy suggest: that merely eliminating direct payments to farmers will help in the quest to raise farmer incomes via the market.

Instead, a thoughtful examination shows conclusively that government must play a major role in helping to manage excess capacity if prices are to be held within a band that is reasonable for both producers and consumers. Government policy must continue to keep the engine of the agricultural train running ever more efficiently through its investment in research, extension, technology, credit and marketing, but it must also be willing to slow down the train through the careful and judicious application of a variety of policy tools, many of which were abandoned in the 1990s.

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[1] See, for example, *Rigged Rules and Double Standards: Trade, Globalisation, and the Fight Against Poverty*, Oxfam International, 2002, especially pp. 115-117.

US policy makers bear much of the responsibility for bringing about the alarming conditions facing world agriculture today. So it is obvious that policy makers must respond with fresh thinking and a willingness to consider alternative approaches. This paper explores alternative scenarios for the future, based on simulations of policy instruments and their impacts on prices and production levels. Finally, it offers a blueprint of policy options that enhances farmer livelihoods in the US and around the world.

Impact of US Subsidies

Efforts to decipher the causes of the present crisis have cast a spotlight on one of the US's most visible and, for most, egregious examples of hypocrisy and double-speak: the extremely high level of US government payments to farmers while simultaneously encouraging other countries to reduce domestic agricultural supports. Although these payments have technically fallen within our support reduction commitments under the World Trade Organization (WTO), they have risen dramatically since 1996 and stand as a testament to US admonitions to "do as I say, not as I do," when it comes to trade liberalization. The severe drop in farm income that would have occurred in the absence of this compensation has been cushioned by these payments, which exceeded $20 billion annually for the last several years.

Lacking comparable support from their own governments, farmers in the developing world find themselves experiencing the full force of the price reductions. Meanwhile, farmers in other subsidizing countries, such as the European Union (EU), complain that the US policies amount to unfair trade advantages. Negotiations within the WTO to come to a common Agreement on Agriculture are completely bogged down as a result, with positions hardened on all sides. While specifics may differ, many point accusingly at the US for what are perceived as serious violations of the principles of free trade in agriculture.

How Did We Get Here? Policy Choices Dictate Prices and Payments

The crisis agriculture faces today is no accident. It is the direct result of expanding productive capacity while ignoring the need for policies to manage the use of that capacity. US officials replaced mechanisms for supporting prices and managing aggregate supply with a sudden preference for an unregulated free market. The outcome has been disastrous but predictable. US farm policy removed set-asides, crop reserves, and price support tools, leaving no way to deal with low prices, except for emergency government payments to compensate for farmer income losses.

As price supports were phased out and eventually replaced with marketing loans and income support payments, crop prices tumbled to depths not seen since the 1970s. Even when crop stock levels diminished, tighter market conditions did not lead to normally predictable higher prices. This would be a red flag in any industry, and it is an indication of the significant dangers that current US policy has created. Long-standing expectations about just how low prices could be driven are now in question, with no real bottom in sight and thus, no pressure to drive up prices despite tight world supply. Many agricultural experts feel that the extraordinary agribusiness consolidation now occurring has discouraged the normal price increases that would accompany tight supplies.

The Exportation of Poverty

Finally, US pressure to open new markets resulted in the removal of tariffs and quotas protecting price levels in fragile agricultural sectors throughout the developing world. Dumping of US products increased along with a chorus of voices claiming unfair trade practices. A recent (2003) paper from the Institute for Agriculture and Trade Policy estimates that dumping levels, or the extent to which the export price is below the actual cost of production, are astounding: 25 to 30 percent for corn, 40 percent for wheat and an unconscionable 57 percent for cotton.[2]

Less understood is the complex relationship between subsidies and prices. Subsidies are US government payments made directly to producers. Most critics of these payments, which nearly tripled since the key turning point of 1996, point to their role in increasing production, thereby glutting the market and forcing prices lower. Instead, this study provides evidence to show that the relationship is far from a linear one, with the reality far more complex than many would have us believe. US production of the eight major crops[3] increased as land previously idled by government set-aside programs was brought back on-line. In the absence of traditional supply management and price support tools, prices declined sharply. Faced with drastic impacts on net farm income, the US government responded by paying farmers compensatory sums to help close the gap. These payments began as so-called "emergency payments," in response to the first market shock in the late 1990s. By 2002, it had become clear that farmers and the rural banking sector would not be able to survive on incomes derived solely from the market. Direct payments decoupled from planting and production decisions were reinstated. Additional direct payments are automatically triggered as prices decline, so that subsidies are both fixed and automatic. If this practice does not change, one can expect US government outlays for farm programs over the next ten years (2003 to 2012) to exceed $247 billion.[4]

Consolidation Aided by US Payments and Low Prices

Yet even with these enormous sums being pumped into the system, farmers are failing. For many, the payments do not close the gap between the cost of production and the market price, and the distribution patterns only reinforce the long-standing bias in US agriculture for bigger, less diversified farms. USDA figures show, for example, that between 1993 and 2000, the US lost nearly 33,000 farms with annual sales under $100,000.[5]

Some might argue that, painful as it is, these "adjustments" to the market are essential to re-balance supply and demand in US agriculture. This is simply not so. The number of farms and farmers continues to decline, but the amount of cropland in production remains relatively constant, as seen in

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[2] *US Dumping on World Agricultural Markets*, Institute for Agriculture and Trade Policy, 2003. Available at www.tradeobservatory.org.

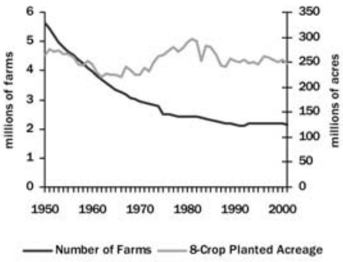
[3] Eight major crops—corn, soybeans, wheat, grain sorghum, barley, oats, cotton, and rice—account for about 74 percent of total cropland in the US. These same crops are the primary "program" crops and receive about 70-80 percent of all government payments. Five crops—corn, wheat, cotton, soybeans, and rice—figure prominently in world export markets and account for over 75 percent of total US crop exports.

[4] Estimates of federal outlays are from the March 2003 Congressional Budget Office (CBO) baseline of Commodity Credit Corporation (CCC) and Federal Crop Insurance Corporation (FCIC) projections. These estimates include price and income support programs, export credit programs, conservation programs, and crop insurance programs but do not include other programs authorized in the Farm Bill, such as nutritional assistance (e.g., Food Stamps).

[5] Calculation by *Public Citizen* from data provided in the US Department of Agriculture Farms and Land in Farms Reports. "Farms and Land in Farms," USDA National Agricultural Statistics Service, Feb. 2001; "Farms and Land in Farms Final Estimates 1993-1994," USDA NASS, Jan. 1999; "Farms and Land in Farms Final Estimates 1988-1992," USDA NASS, Jul. 1995; Cited in "Down on the Farm: NAFTA's Seven-Years War on Farmers and Ranchers in the US, Canada and Mexico," Public Citizen, 2001.

Figure 1

Number of US Farms and US Cropland Planted to the Eight Major Crops, 1950-2001



Since 1950, the number of farms in the US has steadily declined from nearly 5.5 million to under 2 million today.

Despite a loss of more than half of the farms, total cropland devoted to major crops has remained relatively constant in the 250 million acre range. The current average cropland acreage per farm is 2.5 times the level it was in 1950.

Not reflected in this graph is the impact of production technologies over time, allowing ever higher levels of production from the same number of acres and fewer farmers.

Source: USDA, National Agricultural Statistics Service

Figure 1. New production technologies are increasing productivity on those cropland acres, further expanding production.

The unchecked continuation of this trend will surely result in an agriculture dominated almost exclusively by large, highly-mechanized farms planted fencerow to fencerow with the scant selection of crops such operations produce best: corn, wheat, rice, cotton and soybeans. In other words, the policies of the 1990s accelerated the changes in the composition of our farm sector and the degree of its consolidation (including within agribusiness).

Diversified, independent, owner-operated farms are rapidly disappearing, as seen in Figure 1. Many of the remaining small farms may well be controlled by large agribusiness firms through contract production. Such a future spells ruin for farm-dependent rural communities and small and moderate-size farms within the US and around the world. The future is especially grim for the 2.5 billion people in developing countries who depend on agriculture for their livelihoods. Continued access to markets and fair prices for their products means the difference between sustainable livelihoods and disaster.

Eliminating US Subsidies is Not Enough

The elimination of domestic subsidies is the key issue dominating international negotiations on US agricultural policy. While some in the European Union or Cairns Group countries demand an end to US subsidies as a point of fairness or to equalize perceived market advantage, the developing world seeks an end to these subsidies as a point of survival. The goal, well beyond that of merely ending direct payments to US farmers, is to restore a measure of sustainability for the world's poorest farmers for whom receiving better prices—that is, fairer prices—in the marketplace is absolutely critical.

One seemingly rational theory is that the elimination of subsidies will force US farmers to confront the disciplines of the market and respond. It is thought that once the cushion of subsidies is removed, the market will force a reduction in US supplies and a subsequent price increase. Just as low US prices have been transmitted around the world, so would the higher prices, ultimately benefiting agriculturally-dependent countries throughout the world.

However, two separate models testing this scenario reveal a surprising outcome. The removal of subsidies, while causing significant repercussions for farmer income in the US, would not reduce overall US production in a timely fashion or result in substantially higher prices either domestically or on the world market. While prices for cereals in particular would rise over time, the magnitude of the rise (only three percent by the year 2020) means this option does not represent any reasonable or timely improvement for the livelihoods of the world's poorest farmers.

Turning to the US, the consequences of instituting such a policy change are so dramatic that this option is not likely ever to have real political viability in its most absolute form. The drastic reduction of between $11 and $15 billion in net farm income from the average of $48 billion projected under present policies would have enormous repercussions for the rural banking system and, more broadly, for rural economies. This loss of between 25 and 30 percent of net farm income would result directly from the elimination of direct government payments, and crop producers would bear a disproportionately large portion of the drop in income. The decline in income would occur at a time when many feel US agriculture is already in crisis.

Under the more likely scenario of staged reductions in payments, net farm income continues to drop, largely because of the fundamental inability of the sector to self-correct in time. Even in an environment of chronically low prices and farm income, farmlands do tend to stay in production, and aggregate production does not decline enough to drive up prices in any appreciable sense. There would, however, be some adjustments in the mix of crops planted, with cotton and rice losing ground to corn, wheat and soybeans. Some advantages would accrue to cotton and rice farmers in competing countries by reason of the reduced exports in these US crops, but this benefit would not likely persist for long. After a portion of the land in other countries is switched to cotton or rice in response to higher prices, prices would again face downward pressure.

Blueprint of a Workable Alternative

No one policy instrument can be said at this point to hold the key to resolving today's crisis, though several tool combinations hold promise. Their choice and application should result from a careful balancing that seeks to do in concert what none could accomplish alone. This study has identified and conducted a preliminary analysis of a set of policy instruments with potential to increase market prices to a reasonable and sustainable level and effectively manage the excess capacity in US agriculture. This set includes a combination of (1) acreage diversion through short-term acreage set-asides and longer-term acreage reserves; (2) a farmer-owned food security reserve; and (3) price supports.

Acreage Set-Asides. The main objective of annual acreage set-asides is to avoid or to reduce the current tendency toward very low prices by inducing farmers to idle a portion of their working cropland. Longer-term land retirement in the form of a Conservation Reserve Program—a tool already in use—would serve to curb excess productive capacity. Farmers could select some of the most environmentally sensitive cropland and thus ease the environmental burden caused by farming activities

Inventory Reserves. The second policy element, a food stock or inventory management reserve program, would reduce the occurrence and modify the size of price spikes for major commodities. In exchange for a storage payment, farmers would enroll a share of their production in an on-farm storage program when prices are below a threshold level. When prices rise above the threshold, producers would be provided with an incentive to sell their reserves until the price dropped.

Price Supports. The third policy element, price supports, would provide an added measure to help avoid price collapses. Government price supports would be activated through government stock purchases triggered when prices fall below a threshold level, or when set-asides "miss" a low price event.

The authors used a simulation model to examine the impacts of this specific combination of policy measures on production levels and prices. The results of simulating these policy changes are remarkably clear: not only would total cropland planted to the eight major crops drop by 14 million acres in the first year, but prices for the major commodities would increase from a low (for soybeans) of about 23 percent to more than 30 percent for corn, with rice and wheat not far behind. The general increase in the prices of all commodities would lead to net farm income levels close to and above that obtained through a continuation of the status quo, while at the same time reducing government payments significantly below the status quo projections, saving about $10 to $12 billion per year.

Beyond these advantages, production levels could be managed by the diversion of acreage away from traditional tradable crops and toward a non-food, non-tradable crop, such as a bioenergy-dedicated crop like switchgrass, a perennial grass native to the US with high cellulose content.[6] When the annual set-aside was replaced with an incentive to develop a bioenergy-dedicated crop in the simulation model, results demonstrated overall levels of price increase comparable to those achieved by the set-aside policy. This illustrates that annual set-asides, while convenient, would not have to be a necessary component of the program.

Further, results similar to those demonstrated by introducing switchgrass could also be achieved by expanding the acreage enrolled in the Conservation Reserve Program (CRP). Such an approach may also contribute additional environmental benefits. Moreover, if necessary, land diverted to bioenergy-dedicated crops or placed in the CRP could be brought back into production of major crops if unexpected weather or other events jeopardizes the supply of food or demand conditions warrant.

Because the US is a major crop exporter and price leader, this policy blueprint would have immediate impacts, though over the short run. To sustain the improvement in farmer income over the long term, the US would have to be joined by other major agricultural players.

A Farmer-Oriented Agricultural Policy

This illustrative policy blueprint is described as "farmer-oriented," because fair prices from the marketplace would contribute less to concentration and consolidation of corporate control over the farm-to-consumer chain. Net farm income for the US agricultural sector as a whole would be approximately the same as under the scenario of continued present policies, yet independent diversified family farmers would once again have every reason to believe they could continue in farming, preserving their rightful role in the production of our food. Family farmers would have more hope for better incomes than under the often-unfair subsidy based system.

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[6] Switchgrass can either be co-fired with coal to produce electricity, while reducing the level of pollutants released into the atmosphere, or it can be processed into ethanol for the production of fuels with consequent environmental benefits.

US government outlays could drop by more than $10 billion per year, certainly good news for taxpayers. And most importantly, perhaps, it would discourage dumping US products into vulnerable developing countries. Higher prices would be transmitted to the world market, helping to restore the prosperity for rural economies on which national economic development relies.

Conclusion

It is time to acknowledge that the low-price US farm policies benefit agribusinesses, integrated livestock producers, and importers, but are disastrous for the market incomes of crop farmers in the US and around the world.

Any policy that fosters continued low prices for staple foods is a guarantee of continued crisis and worldwide distress. Since US policy affects farmers well beyond our borders, the welfare and future of those farmers must be part of the vision in crafting new approaches. It is time for a new Farm Bill for the world. All major exporting countries must recognize that they too bear a heavy responsibility to cooperate with the US in such an effort. US policy changes alone may yield positive results in the short run, but more permanent benefits will require international policy efforts.

High prices alone will not guarantee sustainable livelihoods for the world's poorest farmers. A range of national and international policies, from credit, land, technology and transportation to tariff protection and access to markets, are essential if agricultural production is to bring a better future for farmers. It is certain that in the absence of higher prices for producers, the US is exporting poverty, while jeopardizing its own diversified family farm base.

Current WTO rules do not expressly prohibit the use of price support and production control policy mechanisms considered in this paper. Instead, WTO commitments place a cap on the overall level of farmer payments. These mechanisms included in the policy blueprint are not in line with mainstream trade liberalization thinking. WTO promotes policy choices that rely on the assumption that some "invisible hand" in agricultural markets will move the sector—prices, supply, demand, income, structure, distribution, and the works—to a higher plane if left to the devices of the free market.

Ending today's crisis must become the most urgent mandate of those who write the rules governing domestic and international agriculture and trade policy. The way out lies not in more of the same but in a balanced application of policy measures left discarded in our headlong rush to an imagined "free market" in agriculture.

Farmer prosperity in the US and the developing world is not only possible, it is achievable. It can be ours at less cost and within a shorter time span than the hoped-for benefits of liberalized agricultural trade promised by the wealthy nations of the world to their developing country counterparts. The choice is ours to make: whose future will be protected, and what kind of global food system will be the outcome of US agricultural policy?

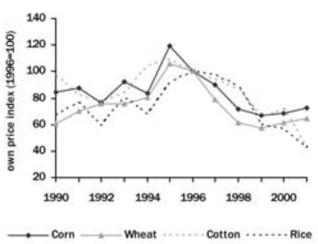
AGRICULTURE IN CRISIS

World crop prices have declined dramatically since the mid-1990s. In the US alone, prices dropped by more than 40 percent since 1995/1996. Figure 2 shows the indexed US price of four major crops that figure prominently in US crop exports: corn, wheat, cotton, and rice. The average price of the eight major crops for the 1999-2001 period was about 20 percent below the price level for the 1985-1995 period.[7] With average weather and yields, crop prices are not expected to increase significantly in the near future.[8]

As an acknowledged price leader in several key commodities and a major agricultural exporter, the US has played a dominant role in agricultural trade throughout much of the past 50 years, particularly in corn, wheat, cotton, rice, and oilseeds. During much of the last century, a major goal of US policy was to keep agricultural production in check by the use of such controls as annual and long-term acreage set-asides and management of crop inventories held by the government. This system offered incentives for farmers to participate in supply management programs.

Figure 2

Indexed US Market Prices for Corn, Wheat, Cotton, and Rice (1996=100)



Since 1996, US crop prices have generally declined about 40 percent.

Corn, wheat, cotton, and rice were selected because they figure prominently in US crop exports. These four crops plus soybeans, grain sorghum, barley, and oats—which are the eight major US crops—account for about three-quarters of US cropland and are the primary program crops, receiving about 70 to 80 percent of all government payments.

While not included in this figure, the magnitude of price drop for other major crops has been very similar to those illustrated.

Source: USDA, Economic Research Service

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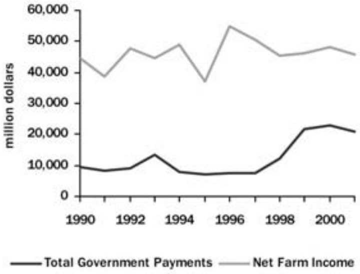
[7] Eight major crops—corn, soybeans, wheat, grain sorghum, barley, oats, cotton, and rice—account for about 74 percent of total cropland in the US. These same crops are the primary "program" crops and receive about 70-80 percent of all government payments. Five of these crops—corn, wheat, cotton, soybeans, and rice—figure prominently in world export markets, and account for about three-quarters of US crop exports by volume.

[8] See, for example, the ten-year projections for major agricultural sector variables provided by the US Department of Agriculture, the Congressional Budget Office, and the Food and Agricultural Policy Research Institute (FAPRI).

Figure 3

Total US Government Agricultural Support Program Payments and Net Farm Income, 1990-2001



Net farm income includes farm marketings and government payments minus total costs.

Between 1996 and 1999, total government payments increased from under $8 billion to well over $20 billion.

From 1990-1998, government payments were about 20 percent of net farm income. From 1999-2001, government payments were 47 percent of net farm income.

Despite government payments that have tripled since 1996, net farm income declined 16.5 percent between 1996 and 2001.

Source: USDA, Economic Research Service

In recent years, however, US policy took a distinct turn in direction. It now relies on exports as the driving force of the agricultural sector. Underpinning this approach is a new-found preference for a completely unregulated free market. The objective is to allow markets to drive prices as low as they need to go in order for the US to out-compete foreign producers and capture a larger share of the world market.

Low Prices Trigger Large Government Subsidies

In response to plummeting prices triggered by the radical changes it introduced in 1996, Congress decided to pay US farmers ever-increasing amounts of direct emergency payments to compensate for low market income. Through much of the 1990s, US government agricultural subsidies ranged from $7 billion to $13 billion. As commodity prices continued to decline, government payments tripled, rising to well over $20 billion by 1999. Despite these record-level payments, net farm income in the US declined 16.5 percent between 1996 and 2001.[9] See Figure 3.

In 2001, government payments to farmers amounted to an astounding 47 percent of farmer income, up from about 20 percent in the 1990s. Despite this enormous infusion of cash, farmer income declined steadily during the same period, and many US farmers are under increasing financial stress.

Low Prices Hurt All Farmers

As Figure 3 indicates, the magnitude of government payments to farmers since 1998 obscures the stunning drop in net farm income from market receipts. Moreover, despite their size, the government payments did not improve net farm income during the period. Figure 4 shows government payments as a percentage of net farm income for each state in 2001. The government accounted for more than 40 percent of net farm income in nearly half of the states, and eight states received payments that were more than 100

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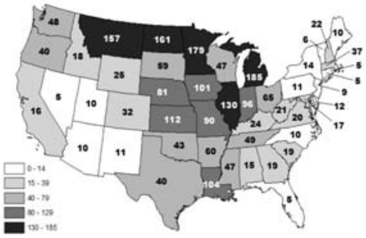
[9] Net farm income provides a measure of returns to land, operator labor, and management.

Figure 4

US Government Agricultural Support Program Payments as a Percentage of State Net Farm Income, 2001



In 2001, eight states received government payments that were *more than 100 percent* of their net farm income (NFI).

Government payments were more than 40 percent of NFI in 21 of 48 states.

The states that experienced the largest percentage of their income from government programs are also the nation's biggest crop-producing states. This further illustrates the level of dependence of US crop farmers on government subsidies for income.

Source: USDA, Economic Research Service

percent of their net farm income. The states experiencing the largest percentage of income from government programs are also some of the nation's biggest crop-producing states, illustrating the dependency of US crop farms on government subsidies.

Under the current US policy, the cost of producing major crops has been much higher than the prices charged for them.[10] As seen in Table 1, market prices in 2001 were 23 percent below the cost of production (total economic cost) for corn, 48 percent for wheat, 32 percent for soybeans, 52 percent for cotton, and 45 percent for rice. More significantly, even with the subsidies added to market income, returns for wheat, soybeans, and cotton were still well below the cost of production (19 percent for wheat, 12 percent for soybeans, and 27 percent for cotton). With the subsidies included, returns to corn were

Table 1

Per-Unit Market Prices, Total Average Cost of Production, and Government Payments for Selected Crops for 2000 and 2001

	Corn		Wheat		Soybeans		Cotton[1]		Rice	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Price	1.77	1.84	2.46	2.76	4.45	4.15	0.62	0.40	5.46	4.74
Total Avg. Cost of Prod'n	2.72	2.39	4.62	5.31	6.20	6.14	0.91	0.83	8.57	8.60
Average Gross Income	-0.95	-0.55	-2.16	-2.55	-1.75	-1.99	-0.29	-0.43	-3.11	-3.86
Government Payments	0.79	0.58	1.85	1.53	1.19	1.26	0.14	0.21	6.94	6.92
Average Net Income	-0.16	0.03	-0.31	-1.02	-0.56	-0.73	-0.15	-0.22	3.83	3.06

(1) Includes revenues from cottonseed

Source: USDA ARMS Production Costs and Returns

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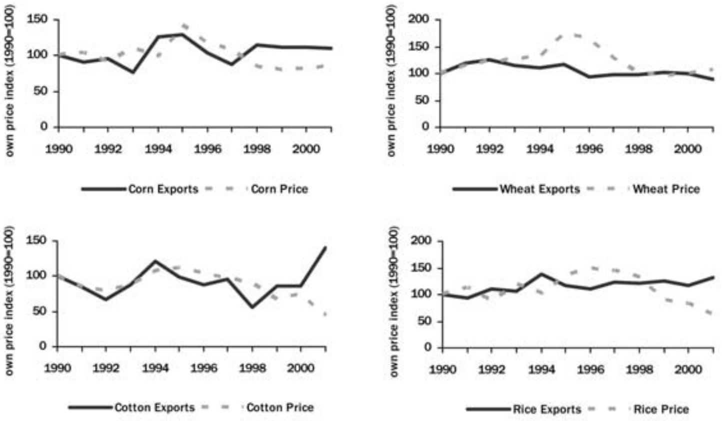
[10] The USDA's Economic Research Service estimates annual costs of production and returns by commodity. USDA Cost and Returns estimates are derived from Agricultural Resource Management Survey (ARMS) data. For more information on ARMS, see http://www.ers.usda.gov/briefing/ARMS/.

Figure 5

Indexed US Exports and Price for Corn, Wheat, Cotton, and Rice (1990=100)



one percent above costs while rice government payments more than compensated for the market losses (including government payments, rice revenues were 36 percent above the cost of production).

US Policy Distresses Farmers Worldwide

The negative effects of the US policy on agriculture are transferred to poor farmers outside the US through the operation of two sets of dynamics. The first is the downward pressure US prices put on world commodity prices. Low prices affect every other country, especially those driven by trade liberalization to reduce domestic and border protections for their agricultural sectors. Although the US does not hold a monopoly—it is one of a few major players in the oligopolistic world markets—low US prices consistently drive down world prices. Thus, our farm policy directly affects the livelihoods and sustainability of small farmers around the world. The persistent low corn, wheat, cotton, and rice prices illustrated for the US (shown previously in Figure 2) are indicative of world price trends for major grains, rice, and cotton.

The second dynamic is the role of low US prices in displacing exports and production from other countries. This impact affects all commodities somewhat but is of primary importance for cotton and rice. Figure 5 shows that US cotton prices declined about 70 percent since the mid-1990s. Since 1998, US cotton exports have soared, rising more than 80 percent in the last three years to their highest level in 75 years. The US share of world cotton exports has now risen to nearly 60 percent, compared to an average of less than 40 percent in the late 1990s (Meyer et

Box 1 — Farm Structure in the US

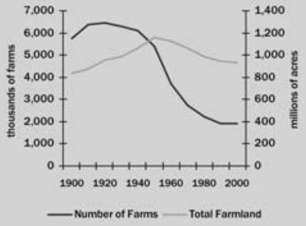
The structure of the farm sector of the US economy has undergone drastic changes over the past century. Because the farm structure both affects and is affected by public policy, it is important to briefly describe the current farm situation as pertaining to the number and size of farms, concentration of production, and tenure.

Farm production has become increasingly concentrated. The number of US farms peaked in 1920 at nearly 6.5 million farms but has fallen to under two million today. The number of acres in production continued to increase until the 1950s when 1.16 billion acres were in production. Since this peak, there has been a steady reduction in productive acres to today's level of 932 million acres. Average farm size has increased from 148 acres at the peak number of farms to 487 acres today.

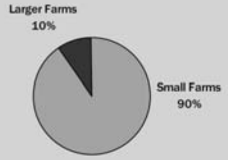
Although 90 percent of US farms are considered small farms—which are defined as those which have less than $250,000 in gross sales—they only account for 33 percent of total value of production. It is the larger farms, with gross sales greater than $250,000, which produce two thirds of agricultural goods on only 32 percent of agricultural land. Because small farmers account for two thirds of all agricultural land, they are important in any discussions regarding land use and the rural environment. Large farms receive about 47 percent of all government payments. This can be viewed as disproportionably large, if considering that large farms are only 10 percent of all farms. Alternatively, it can be viewed as disproportionably small, if considering that large farms account for 67 percent of all production.

In the 1998 Agricultural Resource Management Survey, most small farms did not report adequate income to cover expenses, therefore many small farm households rely upon off-farm income. The largest farms reported the most income after expenses.

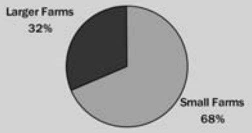
Number of Farms and Farmland Acreage in the US, 1900-2002



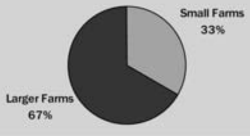
Percentage of Total Number of US Farms



Percentage of Total US Farmland



Percentage of Total US Production



al., 2003). It is important to note, however, that the US share of the world cotton market has grown primarily as a result of capturing much of the foreign demand growth during a period when foreign consumption has outpaced foreign production. Although less dramatic, US rice exports also increased as prices plummeted. This lends credence to those who argue that the US is not just offering, but dumping, commodities on the world market below the production cost to the detriment of small farmers worldwide.

Who are the True Beneficiaries of Low Prices?

Users benefit from these low prices, since US policy alters the normal requirement that the purchaser pay for the full cost of production. The users of US commodities are primarily large and often vertically integrated livestock operations, multinational agribusiness firms and importing countries (though it is often unclear whether importing country consumers directly benefit).

Integrated Livestock Producers Benefit

Government subsidies indirectly provide huge benefits to large and vertically integrated livestock producers, who purchase feed from the market at below production cost instead of growing it on-farm. This places small, diversified farmers at a competitive disadvantage, because they typically feed some crops to livestock on-farm. They thus absorb the full cost of production for the feed. In this way, low prices contribute to the growing pace of concentration in the livestock sector and the weakening position of small US farmers.[11]

A recent report by the USDA's Economic Research Service on Economic and Structural Relationships in US Hog Production illustrates the rapid changes in the livestock sector. Between 1994 and 1999, the number of hog farms in the US fell from more than 200,000 to fewer than 100,000. By 2001, the number had fallen to 80,000. Despite fewer hog farms, the number of hogs in the US did not decline, averaging about 60 million head. Thus unprecedented consolidation occurred in hog production during the 1990s. Over the past decade, the percentage of hog and pig inventory on farms with 2,000 head or more increased from 37 percent to nearly 75 percent. Just over half of all hogs and pigs were on farms with 5,000 head or more in 2001, compared with about a third in 1996.

Agribusinesses Benefit

Large, multinational agribusiness firms are able to purchase agricultural commodities from the market at prices below the cost of production. At the same time, the absence of supply control mechanisms ensures traders and processors an unrestricted availability of commodities. It also ensures input and machinery suppliers an inflated demand for their products, since the government no longer removes any acreage from production through set-asides.

Consumers (Domestic/Foreign) Benefit?

Whether consumers directly benefit from the policies that have fostered persistent low prices depends on the ability of the marketing system to transfer the lower prices to them. In some cases, agribusinesses and middlemen are able to capture some or all of the benefits of low prices. Thus it is difficult to predict whether consumers anywhere will realize benefits from lower prices. As prices fall, importing countries do require less foreign exchange to import commodities needed to feed the population, providing an opportunity for consumer benefits in those cases.

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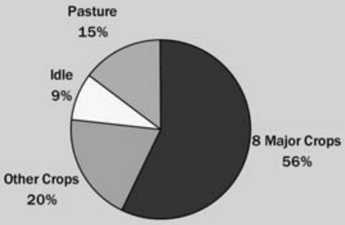
[11] For additional information about increasing concentration in the livestock sector, see Lamb (2002) and various publications and reports availale through USDA's Economic Research Service Briefing Rooms (e.g., http://www.ers.usda.gov/Briefing/Cattle/; http://www.ers.usda.gov/Briefing/Hogs/; http://www.ers.usda.gov/Briefing/Poultry/.

Box 2 — Land Use in the US

Over half of the more than two billion acres in the US is either agricultural or forest land. The other half includes urban areas, parks, swamps, deserts and other unusable land. Agricultural lands account for 455 million acres and include crop land in use, idled land, and pasture land. Pasture and idled land make up 24 percent of all agricultural land.

The eight major crops in the US include corn, soybeans, wheat, barley, oats, cotton, rice and sorghum. These eight crops cover 259 million acres or 74 percent of all crop land in production. Grains and cereals are grown primarily in the Midwestern part of the country. Cotton and rice are grown primarily in the Southern U.S.

Distribution of US Agricultural Land Usage

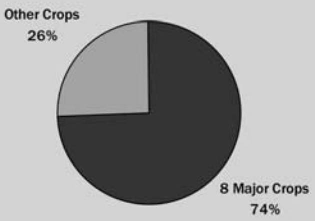


Land Use in the US

Total US Land, 1997 *(1,000 acres)*	2,263,254
Total in Agriculture and Forestry	1,096,588
Total Agricultural Land	455,052
8 Major Crops	258,800
Other Crops	89,901
Idle	38,839
Pasture	67,512
Total Forest Land	641,536
Grazed	140,361
Not Grazed	501,175

Source: USDA, Economic Research Service

Distribution of Total US Cropland



WHY ARE WE IN THIS MESS?

The current crisis in American agriculture is the result of deliberate changes in US policies. The US has continued the policy of expanding productive capacity, but it has discarded protective devices to manage the use of that capacity. This section reviews the changes leading to the current situation of low prices and high income-support subsidies.

The primary lesson to be gathered from the history of US farm policy is that agricultural markets do not tend to self-correct. Rather, when prices are low, production does not decline enough on its own. Nor does domestic demand or even export demand increase enough to rebalance markets and allow farmers to earn a living—that is, a profit—from selling their products.

Agricultural Policy History in a Nutshell

US agricultural policy has heavily influenced two important aspects of US crop agriculture: growth in its capacity to produce and the proportion of productive capacity used.

From its birth as a nation, the US pursued policies that promoted phenomenal growth in productive capacity, supported by the taxpaying public. In the 19th century, government chose to expand the frontier by distributing land to would-be farmers virtually free of charge.

Once most of the land was put into production, US taxpayers bankrolled a system of research stations and extension services to generate and disseminate new technologies. The system has been a tremendous success. It continues to ensure that each new generation of Americans will have access to ample quantities of safe food at reasonable prices.

The other side of the coin is that publicly-sponsored research and extension services contribute to price and income problems. Clearly, neither the US nor the rest of the world would be facing today's low prices and failing small farms if the cumulative growth in agricultural productivity had not taken place.

From the 1930s through most of the 20th century, US policies included a variety of programs that address the price and income problems arising out of our immense and fully utilized productive capacity. Most programs involved some combination of income support, price support and stabilization, production management, demand enhancement, import restriction, or conservation. Appendix A contains brief descriptions of policies implemented at one time or another under these programs along with a few specific examples. The list is not exhaustive.

The capacity to produce is not a mandate to use it fully. For example, in the manufacturing sector, between 15 and 25 percent of productive capacity is intentionally idled at any given time by reason of market supply and demand conditions (Economic Report of the President, 2003). But unlike firms in other industries, individual crop farmers do not have the ability to influence the total supply of output. Nor have farmers been successful in organizing self-help supply management schemes to adjust output to the needs of the market.

Thus, the traditional role of the federal government was to do for agriculture what it could not do for itself: manage productive capacity to provide sustainable and stable prices and incomes. Until the mid-1980s (and beyond, in some cases), the primary focus of US agricultural policy was on production management programs and price support and stabilization programs.

Production Management Programs

In effect, the Secretary of Agriculture decided how much productive capacity should be left unused each year. The government employed several devices to manage supply, but usually farmers were asked to idle various amounts of acreage. Such an approach is far from exact. For one thing, in contrast to manufacturing tractors, where the number to be built can change daily or weekly, the Secretary of Agriculture has only one opportunity per year to influence how productive capacity is to be used for next year's crop. Factors such as weather and slippage resulting from the idling of the least productive land make estimating annual production a very difficult process.

But even if mistakes occurred, adjustments could be made the following year, and the market was aware of this option. So if, in a given year, yields were high, inventories increased, and prices declined, the market responded to the high probability that a set-aside would be imposed the next crop year. Without a set-aside or similar mechanism, crop demanders will delay purchases in a high-yield year because they believe that crop prices will be as low or lower again next year.

Despite their built-in complications, supply management policies have historically prevented the chronic overproduction and depressed prices that would have occurred from a full use of agriculture's productive capacity all the time.

Price Support Programs

Price support programs put a floor under major-crop prices. So if the Secretary erred in setting aside too little acreage because of above-average yields or unusually low demand, prices were prevented from plummeting uncontrollably. The price floor was equal to the loan rate for a crop, that is, the per unit value of the crop used as collateral under a government loan. For example, if the government values a crop of 1,000 bushels of corn at a loan rate of $2 per bushel, the price floor for the crop would be $2. When the loan comes due, the farmer could "give" the grain to the government in full payment of the principal and interest on his loan, thereby receiving the $2 loan rate as the "price" for his crop. If the market price were above the loan rate plus interest, the farmer had the option of paying off the loan, plus interest, and selling his crop at the higher market price. The use of a high loan rate, especially if there are no means to manage supply, can lead to an excessive accumulation of government stocks, along with expensive storage costs.

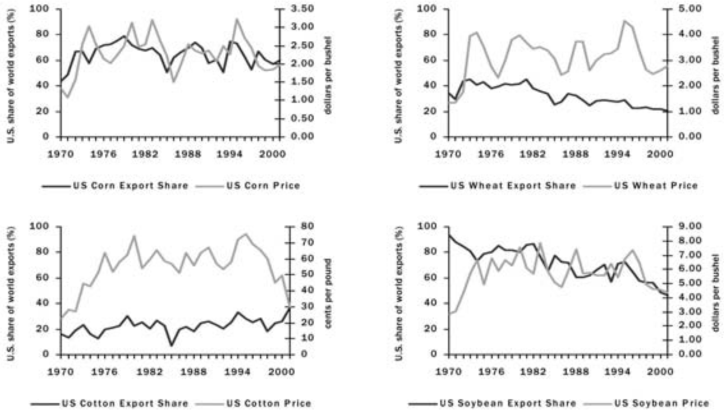
Policy Shift Toward Freer Markets

Over the last two decades, the goal to ensure growth in productive capacity has remained, but the protection of prices and farmer incomes through managing the capacity has not. Rather, the government has placed its reliance on the free market to determine prices and to make direct payments to support farmer incomes during times of low prices. To absorb excess inventory, US policy shifted away from production management and price support and toward demand expansion—especially export demand. Advocates of freer markets and trade liberalization were successful in persuading policy makers to encourage lower prices by reducing crop price supports, expecting that a barrage of exports would follow. It was expected that by modifying the "government intervention" of price supports, the US agricultural sector would quickly adjust to the greater export volume and farmers would reap the benefits of the export boom.

Since the mid-1980s, the United States has deliberately attempted to reduce market

Figure 6

US Exports and Share of World Exports for Corn, Wheat, Cotton, and Soybeans, 1970-2001



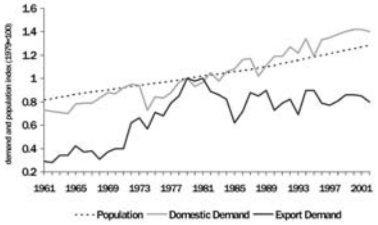
prices for commodities in pursuit of increasing US competitiveness in export markets. Emphasis on trade liberalization and the need to comply with international trade agreements further contributed to full-scale endorsement of this objective.

Despite the popular misconception among economic experts that these policies have been the source of great export growth, exports have not generally increased at all. The export boom did not materialize. In fact, as Figure 6 shows, the US share of world wheat and soybean exports has been declining steadily for the last 30 years. Corn exports have remained relatively flat, although variable. And contrary to expectations, corn exports have actually tended to increase during periods of higher prices and decrease in periods of lower prices, since the US is the world's residual corn supplier. Although the behavior of cotton typically is somewhat different, US cotton exports typically are more responsive, but even they did not "boom" as price support levels were reduced.

When the export boom did not occur, proponents of freer markets argued that the remaining government price support and supply control programs were putting a crimp on exports. In fact, a growing number of economists held the belief that commodity programs were relics of the past. It was assumed that because agriculture is less of a force in the economy today (only 2 percent of the population lives on farms, as compared with 25 percent in the 1930s), farmers are more likely to respond to low prices because they purchase more of their fertilizer and fuel rather than produce it on the farm. This thinking led gradually to the conclusion that government intervention in the agriculture sector was no longer needed. It was thought that intervention was a hindrance to realizing

Figure 7

Indexed US Domestic and Export Demand for the Eight Major Crops and US Population, 1961-2002 (1979=100)



The trend for US exports of the eight major crops has been flat since the early 1980s.

Domestic demand for major crops has increased steadily, outpacing growth in US population due to recent increases in non-food demands.

the full income potential of the agriculture sector. At the same time that conventional wisdom about the price responsiveness of the agricultural sector was shifting, the agribusiness lobby was gaining power and influence. The growing influence of the agribusiness lobby has outpaced that of grassroots farm organizations.

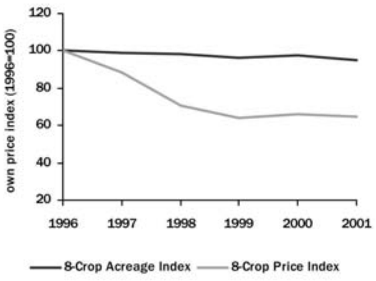
The result of this thinking was the 1996 Farm Bill, which removed all vestiges of government price supports and annual supply controls. The 1996 Farm Bill was debated and passed during a period of very high prices and high optimism for growth in the US agricultural sector. In 1995, prices of most major crops—corn, wheat, cotton, grain sorghum, oats, and barley prices—were at their all-time record highs. The high prices were primarily a result of tight world markets, compounded by weather conditions in the US that resulted in 1995 yields that were well below trend levels. At the time, USDA forecasters were projecting tremendous growth in US crop exports for the foreseeable future.

Exports of soybeans, and especially cotton, did increase and actually exceeded projections during recent years. But that was not the case for most other crops. As shown in Figure 7, the trend of US exports for the eight major crops taken together continued to be flat after 1996. The skyward export trend in the 1970s, while perhaps burned into minds, does not reflect recent reality. Domestic demand, which has grown faster than US population because of non-food demand, has been the driving force for major-crop demand for the last quarter century.

With the removal of the set-aside program, acreage previously withheld from production was freed up. With no mechanisms for acreage reduction to manage supply, the immediate response was an increase in crop acreage. It was no surprise that acreage planted to the eight major crops increased over six percent (over 15 million acres) the year the set-aside policy was removed. Inventory adjustments and world conditions staved off massive price declines, but only until 1998. Thereafter prices plummeted, and government subsidies ballooned to compensate for lost market income. Even as prices declined, the previously idled acreage that came into production in 1996 remained in cultivation. Since 1996, the indexed market price for the eight major crops

Figure 8

Indexed US Market Price and Acreage for the Eight Major Crops (1996=100)



Since 1996, crop prices have generally declined nearly 40 percent.

Even in the face of dramatic and persistent low prices, aggregate crop acreage has declined very little and very slowly.

Source: USDA, Economic Research Service

has declined by nearly 40 percent (See Figure 8). Radically lower prices did not appreciably cut the aggregate crop acreage remaining in use.

Another feature of the 1996 policy—elimination of price supports—has had the effect of sustaining the persistence of low prices. Current US agricultural policy is left with nothing to limit the downward price spiral. Even successive yearly reductions in grain stocks have not had the expected price-enhancing impacts of yesteryear. In the current environment, market participants know that no supply management programs can be used next year to raise prices. So crop demanders do not bid up prices to secure future grain needs. They rightly expect, with all-out production, prices will be as low or lower next season. Over the last five years, market participants have been more and more comfortable with less and less grain in the granary at the end of the crop year. Hence, prices have fallen much farther than they would have under similar stock conditions before 1996.

Prior to 1996, government commodity payments were generally used as financial incentives to encourage farmers to participate in supply management programs. Since 1996, government commodity payments are strictly income support payments. The Congressional response to the massive price slide was to institute record-level payments to farmers to partially compensate for lost income. Annual commodity program payments by program are presented in Figure 9. Beginning in 1998, subsidies to farmers increased by 250 percent over the period 1990-1997. Post-1997 subsidies took the form of unanticipated loan deficiency payments (LDPs), marketing loan gains, and ad hoc/emergency/disaster payments.[12]

Low prices triggered high subsidies in the US, not the reverse, as many believe. While some blame high US subsidies for low prices, the data clearly show the opposite: that higher and higher subsidies were authorized in response to lower and lower prices and incomes. The problem is not the income-

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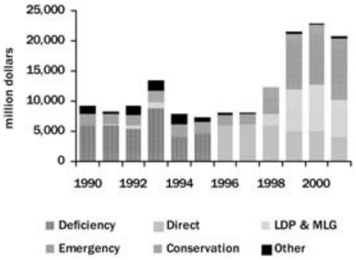
[12] While not part of this analysis, there is even conjecture that the elimination of price support mechanisms has allowed an increasingly oligopolistic grain industry to depress prices deliberately and arbitrarily.

Figure 9

US Government Commodity Payments by Program, 1990-2001



Prior to the 1996 Farm Bill, the largest share of government payments were deficiency program payments. Total government payments in the early 1990s averaged $7 billion to $8 billion annually.

In the 1996 Farm Bill, the deficiency program was eliminated in favor of a declining direct payment program. Additional program support through the marketing loan program and ad hoc emergency (direct) payments brought total payments for the eight major crops above $19 billion.

Source: USDA, Farm Service Agency; APAC Databook

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support payments that were added by recent legislation but the supply control and price-supporting mechanisms that were taken away.

Low prices would not be a problem if demand increased enough to compensate for the lower per-unit price. But this is not the case. Despite record-level government payments, farm income continues to slide downward as farmers receive less and less of their income from the market (see Figure 4 showing government payments as a percentage of net farm income by state in 2001). Even as prices plummeted—making US commodities more competitive in world markets and giving rise to dumping on world markets below the average cost of production—exports remained flat.

On a Downhill Road with No Brakes

The 1996 real-time test of free markets in agriculture flopped. Small farms are failing in droves, and those that remain are in severe distress. Under the current legislation—extended in the 2002 Farm Bill with the addition of a new income support program that automates the "emergency" payments when prices are low—the accelerator works but the brakes have been disconnected. The goal of growth in productive capacity remains, but the goal of protecting farm prices and incomes by managing the level of production has been abandoned. While the large government payments to producers may have hindered the adjustment process, it is necessary also to recognize that adjusting to the low prices implies a further drop of at least $10 to $12 billion in annual net farm income. This loss of income would have devastating consequences for rural communities and small farmers.

Why Agricultural Markets Do Not Self-Correct

As seen above, once production increased and prices fell, there were no policy mechanisms in place to limit the downward spiral. The agriculture sector did not self-correct as the framers of this new policy had predicted. Though the ambitious export projections of the mid-1990s did not materialize, agriculture could have been spared if, like other industries, its markets could self-correct. In other words, if the assumption was correct that farmers are more price responsive, then they would cut back production on their own, causing a recovery in prices. But that didn't happen. As seen, the government's response to low prices was to pay out record subsidies to compensate for lost income created by low prices. The cause of the low prices was the elimination of government price support and acreage reduction programs. The farmers were simply cultivating more cropland than the market could handle.

The overriding problem is that agricultural markets do not self-correct. Why? Other industries self-correct. Why doesn't agriculture? If that were known, perhaps future policy dead ends can be avoided.

The self-correction issue is so important in the case of crop agriculture because market disruptions occur so frequently. Weather-based fluctuations in yields are an obvious market shock. US yields affect domestic supply, and yields in importing countries and export-competitor countries affect US export demand. The effects of weather shocks on yields and most other short-run influences on agricultural markets tend to be random from one year to another.

A longer term, more predictable force that affects agricultural markets is that productivity growth tends to outstrip the traditional slower growth in food demand. Domestic demand for agricultural products in a country like the US grows with population but, unlike the demand for cars, houses, clothes and most other product categories, doubling a consumer's income will have a minor impact on his demand for food. Likewise, the rate of growth in export demand over time has been disappointing, especially in the case of grains. If the growth in demand for agricultural products kept up with production, low farm prices and incomes would be much less of an issue.

In the agricultural sector, productivity-enhancing technologies are quickly adopted, increasing supplies and putting downward pressure on prices. The lower prices, in turn, become further incentives to adopt more cost-reducing technologies, and prices continue their slide. In this way, production agriculture is under constant price pressure, with periods of brief reprieve generally the result of disasters or other random events. Given that food is essential for life, it is urgent that the productive capacity of agriculture continue to stay well ahead of immediate needs. Most agree that this important part of agricultural and food policy should be continued, despite its severe downward pull on farm prices. The mere presence of low prices is not the problem. What matters is how consumers respond in terms of the amount they are willing to buy and how producers respond in terms of the amount they are willing to produce next season. If consumers bought more of the lower priced goods and producers cut their production, excess inventories would quickly vanish and prices would arrive at profitable levels once again.

If this adjustment could take place in the agricultural sector, there would be no fundamental price and income problem. This is exactly the way it works in most product-producing industries: consumers buy more and producers provide less in response to a drop in prices or increase in inventories or a drop in sales. Prices rise and profitability reappears. But as we have seen, neither the quantity of crops demanded nor the quantity supplied is significantly responsive to changes in price, so timely market self-correction does not take place. Total annual output remains relatively constant irrespective of prices, the level of subsidies, or other sources of revenue.

Even when individual farmers go bankrupt, total output changes very little. In contrast to other industries, where a plant closure

Box 3 — Food Consumption Patterns

Although food demand in all countries is fairly inelastic, consumers in poorer nations tend to be more responsive to price and income changes. As the incomes of poorer consumers rise, they will shift their consumption away from lower valued goods and toward higher valued goods. Richer consumers are already consuming greater quantities of higher valued goods, such as meat and dairy, therefore, an income change does not affect their consumption levels as dramatically. Likewise, when there is a change in commodity prices, poorer consumers respond by substituting expenditures between foods, whereas richer consumers are less likely to alter their food group choices when prices change. In this manner, poorer consumers are said to be more income and own-price elastic than richer consumers. But because food is a necessity, food demand is considered inelastic at any income level, as compared to other non-necessity goods.

A study by Regmi analyzed the consumption responsiveness of 115 countries by dividing them into three groups: high, medium and low income. The results confirm the hypothesis that poorer nations are more elastic in food demand. The table below shows that low-income nations have an own-price elasticity of –0.75, meaning that for a one percent increase in food price, they will reduce the amount consumed by 0.75 percent. High-income nations have an own-price elasticity of -0.3 for food. This means that they will only reduce their consumption of food by one-third of a percent when food prices rise by one percent.

Similarly, as incomes rise in poorer nations, they spend a greater portion of the increase on food, with an elasticity of 0.73. High income nations have a much lower income elasticity of 0.29. The decreasing elasticity of food as incomes rise results in poorer nations spending more than half (55 percent) of their income on food while richer nations spend 16 percent (Regmi et al.). The poor tend to concentrate their diet on the cheapest food source, but as incomes rise, consumers diversify their consumption into other food groups. Therefore, some commodities such as meat and fish have a high elasticity for lower income nations, but basic necessities like rice and flour have a lower elasticity. The table below provides estimated elasticities for a variety of commodities in poorer nations.

Region	Commodity	Own-Price Elasticity	Income Elasticity	Source
Low Income (32 countries)	Food	-0.75	0.73	Regmi et al.
Medium Income (41 countries)	Food	-0.60	0.58	Regmi et al.
High Income (26 countries)	Food	-0.30	0.29	Regmi et al.
Brazil (low income)	Vegetables		0.82	Costa
Brazil (low income)	Meats		0.64	Costa
Malaysia	Bread	-1.04	0.53	Abdullah et al.
Malaysia	Rice	-0.30	0.31	Abdullah et al.
Malaysia	Flour	-0.48	0.43	Abdullah et al.
Vietnam (Red River)	Rice	-0.92	0.43	Minot and Goletti
Turkey	Bread	-1.07	0.38	Akbay and Boz
Indonesia	Corn	-0.26		RAP
Indonesia	Cassava	-0.39		RAP
Indonesia	Soybeans	-0.78		RAP

Abdullah, NMR, AAA Rahman, A Radam and AZ Baharumshah. (1999) Demand and Prospects for Food in Malaysia, Paper presented at the Seminar on Repositioning the Agriculture Industry in the Next Millennium, organized by Centre for Policy Studies in Serdang, Malaysia, 13 -14 July.

Akbay, C and I Boz. (2001) Food Consumption Patterns of Socioeconomic Groups: An Application of Censored System of Equations, presented at the ERC/METU Conference in Ankara, Turkey, Sept 10-13.

Costa, Fabiano. (2001) Changes in Food Consumption Patterns in Brazil, Food and Agribusiness Research, Issue 019-2001, June.

Minot, N and F Goletti. (1997) Impact of Rice Export Policy on Domestic Prices and Food Security: Further Analysis Using the Veit Nam Agricultural Spatial Equilibrium Model (VASEM), International Food Policy Research Institute, July 9.

Regmi, A, MS Deeepak, JL Seale Jr. and J Bernstein. (2001) Cross-Country Analysis of Food Consumption Patterns, Changing Structure of Global Food Consumption and Trade, ERS WRS-01-1.

RAP Publication. (1999) Livestock Industries of Indonesia Prior to the Asian Financial Crisis, Food and Agriculture Organization of the UN, no. 37, Dec.

means a reduction in industry size because the land and other assets are sold to a different industry, crop acreage typically remains in production. It is merely tilled by someone else. A farm sale does not typically reduce the size of the agricultural industry. In fact, output per acre may actually increase because the new owner is a better manager or is better capitalized.

The bottom line is this: regardless of the cause of decline in revenue, total crop output declines very little in response. Self-correction works no better on the demand side than on the supply side. To establish an agricultural policy based on the assumption that free market adjustments will occur within a reasonable time is not only naïve and ill-advised, it simply will not work.

US PRICES MATTER

US prices for major commodities have a direct influence on world prices. This section shows the strength of that influence and the impact of low US prices on small farmers and developing nations. In one sense, this is a foregone conclusion, because if the US price did not affect world prices, and specifically prices in developing countries, then other countries wouldn't be complaining about US subsidies or any US agricultural policies.

US Commodity Price Leadership

Current international grain markets are oligopolistic, that is, a few dominant sellers influence the market. One, or a small number of powerful sellers, sets the price and allows smaller suppliers to sell as much as they choose at that price. Several studies have used oligopoly models to describe the international agricultural commodity markets (McCalla, 1966; Alaouze et al., 1987; Bredahl and Green, 1983; Mitchell and Duncan, 1987).[13] In these models, the US is described as a price leader, influencing the world price by its domestic price. Small suppliers face a perfectly price elastic export market, wherein they can sell as much as they can export at the leader-influenced price. The price leaders are "residual suppliers," making up the difference in satisfying import demand not met by the other exporters. Small exporters set their price slightly lower than that of the price leaders. Importers view price leaders as a last-resort seller at the highest price.

According to Mitchell and Duncan, who conducted extensive tests based on an oligopolistic model, the volume of a non-dominant nation's exports does not depend on world demand. It can export all available crops at a given price. Conversely, the price leader's export volume rises and falls with world import demand. If world demand increases, it will increase its export volume. In times of contracting world demand, its exports diminish first.

Mitchell and Duncan concluded that the US exhibited price leadership in the rice and coarse grain markets. In a later update of the Mitchell and Duncan studies, Hellwinckel and De La Torre Ugarte (2003), in recording an additional 20 years of data, found that the US serves the role of price leader in the corn, rice and cotton markets.

US Price Influence: Supporting Evidence from Specific Countries

One need only observe the behavior of corn and rice to conclude that the US impacts world prices, whether or not it is dominant by volume in a particular commodity. This section describes how US price leadership interrelates with major agricultural exchanges in other countries, specifically, the extent to which US corn prices affect corn prices in major corn export countries and in major corn import countries. Data and evidence on the price of US rice are also introduced. While the US is a major exporter of corn, its export market share for rice is much smaller. These two extreme cases show the

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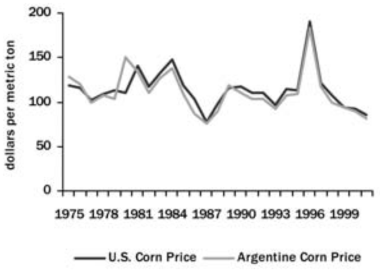
[13] Even though international grain markets are oligopolistic, models that show benefits of freer trade tend to assume atomistic competitive markets.

Figure 10

US Corn Price and Argentina Corn Price



There is a very strong relationship between the US corn price and Argentina's corn price. Results of a price regression model indicate that after accounting for US corn stocks-to-use, a one percent increase in the US price of corn results in a one percent increase in the Argentine corn price.

The prices reported are the Argentina Buenos Aires FOB port price and the US Gulf ports export price.

range of US influence on prices in other countries.

The Case of Corn

About 25 percent of US cropland is planted to corn, yielding 9 to 10 billion bushels per year valued at about $20 billion. About 20 percent of US corn is exported. Corn not exported is used for domestic demands or stored for later use. Even though exports do not dominate US corn demand, US corn exports far outstrip corn exports of all other countries. In 2001, the US accounted for two-thirds of world corn exports.[14]

Relationship to Argentina Corn Price Argentina—which accounted for about 12.5 percent of world corn exports in 2001—is America's primary competitor on the world corn export market. Figure 10 shows the price charged by the two countries since 1975. The Buenos Aires FOB port price and the US Gulf Port price seldom show much of a differential.

A model was developed to determine the influence of the US corn price and the US stocks-to-use ratio on the Argentine corn price. According to the model results, 84 percent of the variation in the Buenos Aires price was directly related to the Gulf Port price. A one-percent increase in the US price of corn results in a one-percent change in the Argentine price.

Even trading practices of the major Argentine commodity exchange highlight the influence of US commodity prices. The primary commodity market in Argentina, the Mercado a Termino (MAT), operates on a schedule very similar to that of the Chicago Board of Trade (CBOT), despite a time zone difference of three hours. The MAT opens at 11:55 a.m. local time to ensure an opening 35 minutes prior to the CBOT's at 9:30 a.m.

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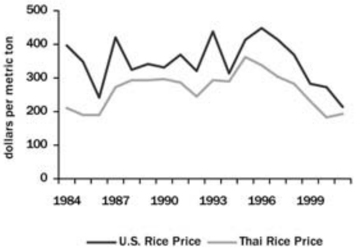
[14] The second leading corn exporting country is Argentina, accounting for about 12.5 percent of world exports in 2001. Japan is the largest corn importer, purchasing 21 percent of all corn imports in 2001, followed by Korea (11 percent) and Mexico (7.5 percent).

Figure 11

US Rice Price and Thailand Rice Price



There is a strong relationship between the US rice price and the rice price in Thailand, the leading rice export country. Results of a price regression model indicate that a ten percent increase in the US price of rice results in a 4.7 percent increase in the Thai rice price.

The prices reported are the Texas Long Grain rice price (US) and the Grade B 100% rice price (Thailand).

local time, and it closes one hour before the CBOT. The opening and closing times of the MAT are adjusted by one hour twice annually to correspond with daylight savings time and standard time in the US, a practice otherwise rare in Argentina.

Relationship to Mexico and Philippines Corn Price A second model was used to examine the relationship of US corn prices to those of Mexico and the Philippines. The model compared the US corn stocks-to-use ratio with the Mexican price, the lagged Mexican price, and a dummy variable indicating pre-NAFTA and post-NAFTA years. Model results indicated that a ten-percent increase in the US corn stocks-to-use ratio translates to a six-percent decline in the Mexican corn grain price. A ten-percent increase in the price of US corn results in a 3.6 percent increase in the Philippine corn price.

The Case of Rice

The US is not a dominant exporter of rice by volume, yet is one of the most influential participants in the world rice market. America harvests between 3.0 and 3.5 million acres of rice, averaging about 200 million hundredweight with a value of $1 billion (less than two percent of the value of the eight major US crops). Just over half is consumed in the US (55 percent in 2002). The rest is exported. In 2001, the US was the third leading rice exporter but with only a 10 percent share, behind Thailand (31 percent) and Vietnam (14 percent). Six countries—Thailand, Vietnam, US, Pakistan, India, and China—accounted for about 80 percent of world rice exports in 2001 (Child, 2003).

A model was developed to track the relationship between the US and the Thai prices. The Texas Long Grain rice price (the major US rice port price) and the Thai Grade B 100% rice price are presented in Figure 11. Again, model results showed a strong correlation between the US price and the price of the leading competitor on that export market. Eighty-four percent of the variation in the Thai rice price could be explained by the Texas price and the US rice stocks-to-use ratio, and a ten-percent increase in the US price will result in a 4.7 percent increase in the Thai price. This correlation is compelling evidence that even where the US is not a dominant exporter, its commodity exchanges influence world prices.

The Role of Prices in the Developing World

Fully 96 percent of the world's farmers live in developing countries. In 58 of these countries, including the world's poorest, with a population exceeding three billion, half or more of the work force is primarily dependent on agriculture (Tomich et al., 1995). The World Bank estimates that a ten-percent growth in agricultural production in these countries could reduce the number of people living under the poverty line by as much as six to ten percent. Clearly, policy changes in America designed to foster agricultural production in the poorest nations could help to improve the livelihood of a significant portion of the world population.

Of course, US policy is not the only factor influencing agricultural production in developing countries. Profitability, technology, credit, infrastructure, marketing efficiency, institutional development, all play a vital role. However, changes in most of these factors are not likely to be immediate and may take several years to have an impact.[15] On the other hand, changes in some factors, especially profitability, may have a direct and immediate impact on farmer welfare and agricultural growth. Receipt of higher prices by farmers in developing countries could improve the well-being of billions of people. Because most of these countries do not have the resources to import enough food, adequate domestic production is overwhelmingly essential. Earlier, evidence was presented showing the role the US plays as a leader in world agricultural commodity markets. It is clear that US prices impact international and domestic prices around the world. The extent to which prices in a particular country are influenced by US policy depends on the degree to which its economy is open to trade.

Farm Price Formation in a Small Country with an Open Economy

A "small" country, as used here, means one whose volume of imports or exports has no ability to impact world market price. Most developing countries are included in this category. A country is a "net importer" of a commodity when domestic production is not sufficient to satisfy domestic demand at a given price. An agricultural producer in a small net importing country will most likely price goods according to the following formula:

$$P_{producer} = (P_{world} + T_{transportation}) * (1 + t_{tariffs}) - M_{margin}$$

This means that the price a domestic producer receives can be approximated by taking the prevailing world price plus the cost of transporting the crop to the border or local port, or the border price. Taxes and/or tariffs are added to the border price to arrive at that producer's wholesale price. The wholesale price is reduced by an amount similar to what the intermediaries take as gross margin for marketing the farmer's production. The net result is the domestic producer's price. Using a similar logic, it is possible to approximate the price to consumers by adding, rather than subtracting, a marketing margin charged by intermediaries for taking the product to the corresponding market.

The price received by farmers could increase in several ways. First, it can follow rising world prices. Second, in the case of imported commodities, prices would increase as tariffs or other taxes increase. Third, the net price received by producers could increase if marketing charges decline. If the country's marketing system is such that the impact of higher world prices or higher tariffs is not transferred to producers, then intermediaries will have higher margins, and producers will not benefit at all.[16] As to producers in exporting countries, the formula can be simplified as follows:

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[15] The most direct connection between US agricultural policy and developing countries is through prices and market access. While market access policies are certainly an important aspect of studying the impacts of US agricultural policy on developing countries (especially in the case of cotton), they are not the focus of this study. This effort deals exclusively with US commodity policies that directly affect government payments and programs directed to US farmers.

$P_{producer} = P_{world} - M_{margin}$

Producers can raise prices to follow an increase in world prices. The farmers will not benefit, however, if the gain is appropriated by the intermediaries. For farmers to gain, the marketing system should provide for the transfer of a large share of the price increase to farmers.

Impact of Changing US Agricultural Policies

Higher US prices would have their most direct impact by closing the gap between the cost of production and the market price in the US. This, in turn, would reduce the amount of US commodity dumping that occurs as a result of current US agricultural policies. Higher prices would provide a more level playing field for export competitors, while at the same time increasing competition between US exports and local production in developing countries. Also, if the higher US prices are a direct consequence of reducing the production of major crops, the volume of US exports would also be reduced, opening export opportunities for other countries as well as opportunities for increasing local production.

The effects of higher world prices would not be uniform, either across crops or across countries. Consequences would vary, depending on the nature of the crop (food or nonfood); the orientation of the country as a net exporter or importer; the particular characteristics of the domestic agricultural sector; and the overall economic, social, and political structure of the country. Still, it is possible to identify how a redirection in US policy resulting in higher world prices could impact developing countries. Using the simplified version of the price formula ($P_{producer} = P_{world} - M_{margin}$), higher world prices for any of the major commodities will increase incomes for farmers around the world, as long as their internal marketing systems pass along a share to agricultural producers.

If higher prices are transferred to producers, the area planted to these crops is likely to increase as farmers react to the higher prices. The increase in planted acreage would come from shifting acreage away from staple crops, from acreage dedicated to other crops or to sustain livestock activities, or from acreage previously idle. The higher prices would thus trigger re-allocation of acreage from other uses into major crops. This would result in higher prices for the non-major crops as well, since their production would be reduced by the loss of acreage.

As acreage in other countries is shifted into major crops over time, the price gains could be erased altogether. In that case, the final outcome would be simply a worldwide reallocation of production without a significant price change. The net result to any particular country would depend on the duration of the price and income increases and the ability of its economy to use short-term gains to foster economic development.[17]

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[16] The incentive for the marketing system to pass on higher world prices to producers is a primary concern. This incentive is largely based on the degree of competitiveness in the food marketing system, i.e., the number of firms, individual and collective firms' market power, etc. Though not the subject of this study, concentration, market share, oligopolies, and monopolies within the global food marketing system are very important issues to study and address.

[17] Though not the focus of the analysis presented in this study, this concern is a critical reason to examine the possibility and impacts of global cooperation in supply and inventory management over the long run, in addition to changes in US agricultural policy.

Moreover, as acreage shifts to the production of major crops, the prices of the other crops, especially staples, would rise as they become more scarce. Such a price increase could threaten the food security of a country. In the case of an exporter of major crops, a shift from acreage normally cultivated for domestic use to the production of exports could threaten the country's food supply. Shifts of acreage to major crops in countries with limited agricultural potential or those that are net importers of major crops could result in disaster.

Since many developing countries are deeply in debt, overwhelmed by imbalances in export revenues, or suffer from exchange rate instability, higher world prices would play a vital role. If such a country is an exporter of major crops, increasing foreign earnings could improve its overall ability to import staple foods. On the other hand, reallocating acreage into an export crop previously planted to crops for domestic use could diminish the availability of staples for the local population. As we have seen, in a net importing country, higher world prices could increase local production only if the marketing system transfers to farmers a significant share of the increase in world prices.

Impacts on Small Farmers and Less Developed Countries (LDCs)

The US, a first-tier commodity market, is one of the world's largest exporters of corn, rice, sugar and cotton. Not surprisingly, when the US releases those commodities onto world markets at prices lower than the cost of production, it has a powerful depressive effect on second-tier commodity markets. Though low prices affect all farmers, first-tier countries like those in North America and Europe are better positioned to protect their farmers from the adverse effects. First-tier farmers receive direct subsidies to compensate for the loss of income. Second-tier countries provide no such luxuries for their farmers. Chronically low prices can be devastating to farmer income and country-wide prospects for development.

Mexico: Corn Prices Halved, Tortilla Prices Doubled In Mexico, a second-tier country, depressed corn prices work a double curse. Corn is virtually a symbol of that country, so closely is it associated with the Mexican way of life. When the Mexican government opened its borders to inexpensive US and Canadian corn under the North American Free Trade Agreement (NAFTA), the price of corn plunged nearly 50 percent. Faced with half the price they were accustomed to receive, millions of Mexican farmers could not cover the costs of production. Many left their farms and migrated to cities to seek employment. Others expanded production where they could, even using erosive hillsides (Nadal, 2000).

It is important to note that despite the price plunge and out-migration, Mexican corn acreage and production levels remained nearly unchanged. Remaining farmers took over production and made less – or lost more – at the margin. At the same time, consumer prices for an important Mexican staple rose dramatically. NAFTA's requirement that Mexico remove the protection given to the production of corn tortillas meant that tortilla prices were free to skyrocket. And they did. Consumer prices for tortillas, the staple of the Mexican diet, rose 50 percent in Mexico City and even higher in rural areas. This commodity price/consumer price anomaly illustrates the folly of concluding that low farm prices necessarily benefit consumers.

Haiti: From Self-Sufficient to Malnourished In 1990, Haiti, another second-tier country, was nearly self-sufficient in providing its rice requirements. Today, after years of importing cheap rice from the US, Haiti's local production has collapsed. Its rice output is merely half of its 1990 volume. The other half has been taken over by cheap US imports. The rice-growing areas of Haiti now contain some of the poorest and most malnourished populations on the island. A once proud, nearly self-sufficient rice producer is now dependent on food imports. Sadly, Haiti's economy cannot cover the cost in the long term, because it will not be able to maintain the required stores of foreign exchange. Beyond that, domestic production of other staple foods is also losing the battle against competition from cheap foreign imports. As one Haitian farmer said of her situation: "While rice is so cheap, we can never find a way out of our poverty. These imports make our lives impossible. I can no longer afford fertilizers, so I am producing less. My farm no longer grows enough even to feed this family. There is not enough money for health care and education (Oxfam International, 2002)."

Africa and SE Asia in Downward Spiral

Similar stories can be repeated in countries throughout the world. In 2001, the US sold its surplus wheat at 44 percent below the cost of production, corn at 33 percent below, rice at 22 percent below, and cotton at a whopping 57 percent below (Ritchie et al., 2003). This hit the countries in west and central Africa like a hurricane, virtually all of which are Least Developed Countries (LDCs). How can these countries possibly compete against a price 57 percent below production costs?

West and central Africa harvest nearly five percent of the world's cotton. Production in 2001/2002 was particularly good and would have been profitable if the international price had exceeded just 50 cents a pound (World Bank, 2002). Instead, because US cotton depressed world prices, these countries suffered a loss of some US$ 200 million. Should present US policies remain, these countries have no hope of reversing the downward spiral they face in the cotton sector. In Ghana, where local production costs for poultry run US$ 1.29 a kilo, imported poultry is flooding the market at US$ 0.65-1.00 a kilo. Then there is Vietnam. Its sugar industry, which offers a local price of US$ 278 a ton, must engage in the impossible task of competing with a world price of US$ 210-218 a ton.

As suggested earlier, when farmers need to make money, they tend to do what they are good at: plant crops they can sell. As small farmers increasingly focus on crops sold for cash, the amount of locally produced subsistence crops declines, making basic food more expensive and less secure. Poorer countries are then forced to import food they are otherwise well equipped to produce themselves. Indonesia is another example of this tragic twist. Until 1984, it was self-sufficient in rice production but is now one of the biggest importers of rice. This cycle of poverty will probably never turn around without a change of policy by America and the other first-tier countries.

Everywhere, overproduction and low prices predispose first-tier countries to dump their excess, forcing formerly productive second-tier small farmers into poverty. The effects are pernicious where the developing country's economy is already frail and the farmers are operating with limited resources.

US Prices Do Matter

These analyses and other studies clearly allow the conclusion that the US is a world price leader. US prices directly impact those of other countries across a wide spectrum of country-specific export/import situations. Thus there is no reason to doubt that domestic farm policies affecting prices move prices globally as well. While price is not the only thing that matters, it must be seriously dealt with where a change in American agricultural policy could make a vast difference in reducing poverty and increasing incomes worldwide.

The radical shift in US policy in the 1996 Farm Bill has contributed to worldwide poverty and food insecurity. To prevent dumping and raise farmer incomes, the problem of low prices in the US must be solved. Because the US price matters, it is crucial that policy makers appreciate the depressing effects our policies have reaped.

It is not difficult to see that higher farm income and production that trails a rise in world prices would improve the livelihood of agricultural producers. If these conditions continued, they could introduce economy-wide improvements and higher incomes for the overall population. The higher income might more than make up for the likely increase in food prices.

Developing countries are normally unable to establish safety nets for displaced farmers or assist the urban poor in managing increases in food costs. A developing country, therefore, should manage the opportunities afforded by a rise in world prices. Its local marketing system should be designed to transfer price changes equitably among producers and consumers. Pursuing trade and agricultural policy changes without addressing adjustment costs, inefficiencies or unfair concentration of benefits could turn an economic opportunity into a severe setback.

In summary, higher world prices could increase the revenues of local farmers in developing countries. Whether or not the farmers benefit, though, is strongly influenced by the ability of the internal marketing system to transfer the gains to producers.

THE 2002 FARM BILL

The 2002 Farm Bill contains the policies governing American agriculture today. Scheduled to remain largely unchanged through 2007, the Bill continues and expands the programs introduced in the 1996 Farm Bill. The deliberate design is to allow prices to fall as low as market and weather conditions will permit. Three safety net mechanisms appear in the form of income support programs: (1) continuation of the direct payment program;[18] (2) a new counter-cyclical payment program;[19] and (3) continuation of the marketing loan program, which authorizes payment of loan deficiency payments and marketing loan gains.[20]

More of the Same

Like its 1996 sister Bill, the 2002 Farm Bill leaves no policy mechanisms in place to control production. Acreage set-asides are absent, although the long-term removal of environmentally sensitive lands through the Conservation Reserve Program is extended and expanded. Nor are there safeguards to prevent crop prices from falling even below their current levels, i.e., no price supports via non-recourse loans. On the flip side, there are no policy mechanisms in place to prevent crop prices from skyrocketing should a catastrophic event cause a severe shortage of stockpiles.

The 2002 Farm Bill authorizes a new Conservation Security Program, which makes direct payments to farmers for conservation practices on working farmland. Funding authorization for existing conservation programs is increased.[21] Emphasis is shifted away from retiring environmentally sensitive lands in favor of improving environmental performance on lands in cultivation. In addition to commodity policies continued from the 1996 Farm Bill, the 2002 Farm Bill includes export credit guarantee programs, expanded food assistance and export promotion programs, and land conservation and environmental improvement incentives, among other diverse measures.

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[18] Under the 1996 Farm Bill, producers of major commodities were eligible for fixed, declining payments for program crops. Producers received payments based on historical production (program base acreage). Payments were made regardless of the level of production, even if no crop was produced. These direct payments were often referred to as "transition payments," AMTA payments and Production Flexibility Contract payments. Under the 2002 Farm Bill, these payments are fixed and decoupled and are referred to as "Direct Payments."

[19] The counter-cyclical payments authorized in the 2002 Farm Bill are essentially a vehicle for "automatically" distributing the emergency/disaster/ad hoc payments that were made since 1998. Producers do not have to produce the commodity to be eligible for counter-cyclical payments; thus, they are partially decoupled. They are also partially coupled, since they are triggered when market prices fall below established, fixed target prices. The payment rate for counter-cyclical payments depends on the effective price for the commodity. The effective price is the direct payment rate plus the higher of the market price or national loan rate. Counter-cyclical payments are made on 85 percent of historical or updated base acreage for the crop using historical or updated program yields. Thus, as market prices decline, counter-cyclical payments increase.

[20] The marketing loan program allows farmers or processors to pledge a portion or all of the commodity as collateral and obtain a loan from the Commodity Credit Corporation (CCC), agreeing to repay the loan plus interest within a specified period. When market prices are below the loan rate, farmers are allowed to repay the loan at a lower loan repayment rate (based on local or world market prices). When a farmer repays the loan at a lower loan repayment rate, the difference between the loan rate and the loan repayment rate is the *marketing loan gain* and represents the farmer's program benefit. Alternatively, producers may choose to receive marketing loan benefits through direct *loan deficiency payments (LDP)* when market prices are lower than the loan rate. The LDP rate is the difference between the loan rate and the loan repayment rate. This option allows producers to receive the benefits of the marketing loan program without having to actually take out and repay commodity loans.

[21] While the legislation authorizes new and expanded conservation program funding, program implementation and budgetary allocations are separate matters. At this time, Congress has not yet fully funded the Conservation Security Program and implementation has been slower than anticipated.

Absent any major unanticipated supply or demand shifts, like widespread drought, the 2002 Farm Bill essentially guarantees the continuation of low agricultural prices. Compensation will continue for American farmers for unsustainable prices and inadequate income through large direct government payments. The impact of low prices on agricultural markets or incomes in other countries is simply not a consideration in current US policy.

Implications for Farmers

Assuming that the policies mandated by the 2002 Farm Bill remain in place, how will US agriculture fare over the next decade? Based on the 2003 US Baseline for the agricultural sector provided by the Food and Agricultural Policy Research Institute (FAPRI), a simulation was estimated using the POLYSYS model (additional information about the POLYSYS model is available in Appendix C). This simulation projects the performance of the US agricultural sector under the continuation of the status quo in US farm policy.

Annual projections for US acreage planted to the eight major crops, prices for five major crops, net farm income, and government subsidy payments are presented in Box 4.

Under a continuation of the status quo, acreage planted to the eight major crops is projected to remain nearly constant, varying by only a half million acres (much less than one percent) from 2003 to 2011. The share of total acreage planted to each of the major crops is also projected to remain nearly constant. Soybeans show the largest acreage gain over the nine years, increasing about five percent.

Prices of corn, wheat, and soybeans are flat over the projection period. Cotton and rice prices increase about 25 percent between 2003 and 2011—driven by FAPRI-embedded assumptions of a higher volume of exports in the case of cotton, and growth in domestic consumption in the case of rice.

Continuation of 2002 Farm Bill policies results in relatively constant net farm income, ranging between $46 billion and $52 billion. Increasing net farm income in the early simulation years is primarily due to rising prices and large government payments. Leveling prices and government payments coupled with rising production costs contribute to lower net farm income in later simulation years, averaging around $46 billion to $47 billion between 2007 and 2011.

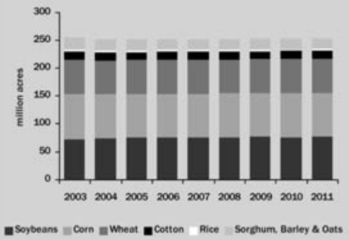
Since prices do not change dramatically throughout the period, government payments continue to be a significant component of net farm income. Through 2006, government payments are expected to average above $20 billion per year. As slight gains in prices occur in later years, total government payments level off around $18.5 billion annually. Annual direct (decoupled) payments remain level around $5 billion throughout the period. Loan deficiency payments (LDPs) decline from over $7 billion annually to under $5 billion as prices rise slightly and counter-cyclical payments also decline from about $5 billion to under $4 billion.

The FAPRI projections are not surprising. Absent any major unanticipated supply or demand shifts, aggregate crop acreage will remain nearly unchanged through 2011, although the crop mix adjusts at the margin. Crop prices remain generally flat and low, except for increases in cotton and rice prices. Therefore, a continuing burden on scarce budget dollars to compensate US farmers for low prices is assured, yet government subsidies will do little to relieve the economic stress in the US agricultural sector and in rural areas in general.

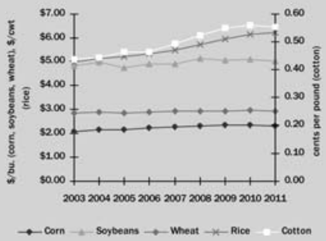
Box 4 — Continuation of the Status Quo

The following figures show 10-year projections for major agricultural sector variables assuming that the policies in the 2002 Farm Bill remain in place. Planted acreage is projected to remain nearly constant, declining one half million acres or two-tenths of a percent over the next decade. Prices of feed grains and soybeans are projected to remain relatively flat while cotton and rice prices are projected to increase substantially. Realized net farm income is at $46.5 billion in 2003 and rises to $52 billion in 2005 before declining and leveling off between $46 billion and $47 billion through 2011. Government commodity program payments are expected to remain around $21 billion per year for the next few years before peaking at $22.7 billion in 2005 then declining to around $18.5 billion per year through 2011. Simulations are based on the *2002 FAPRI Baseline Projections for the Agriculture Sector*.

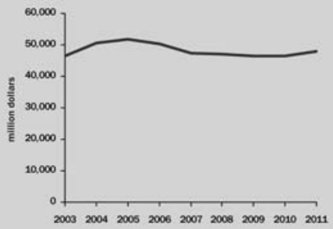
US Acreage Planted to the Eight Major Crops Under Current Farm Policy, 2003-2011



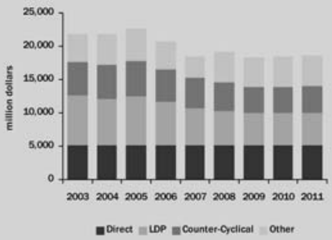
Projected Prices of Five Major Crops Under Current Farm Policy, 2003-2011



Projected Net Farm Income Under Current Farm Policy, 2003-2011



Projected Government Program Payments Under Current Farm Policy, 2003-2011



In summary, the 2002 Farm Bill will not cause a departure from the low commodity prices that have persisted since the mid-1990s. It continues the approach of making up losses in net farm income in the US with government subsidies. Its provisions offer little by way of improving the economic welfare of farmers in developing countries, whose production is either threatened by low-priced imports, or whose revenues are curtailed by the woefully inadequate prices for their exports. Market prices will languish below the cost of production, and American commodities will be dumped on world markets, further weakening the position of poor farmers around the globe.

CONFLICTING VIEWS:
HOW TO FIX BROKEN POLICY

Nearly everyone with a stake in agriculture agrees that persistent, low prices negatively affect American farm income and disproportionately affect income in some of the poorest regions of the world. But differing perspectives abound as to what causes the low prices and high subsidies and what could or should be done to restore prosperity to the farming sector in the US and elsewhere.

Brief summaries of the prevailing views of the agricultural crisis are included in Appendix C. Based on principles found in most every introductory economics textbook, these views focus on specific aspects of agricultural markets, or they make implicit (or explicit) assumptions about market responses that lead to explanations of the current low commodity price situation. And they propose ultimately unconvincing solutions to the palpable problems plaguing world agriculture.

The Free-Market Solution

The most commonly held view among commentators is that high subsidies paid to farmers in developed countries are responsible for overproduction and low prices. As evidence, they point out that subsidies rose sharply at precisely the time prices plummeted. Hence subsidies cause low prices. Subsidies are believed by many economists to be "trade distorting" and an absolute negative. While subsidies are not necessarily prohibited by current trade liberalization frameworks such as the WTO, they are generally limited and, at best, frowned upon. It is argued that subsidies are proof that government intervention in the agricultural "free market" creates economic inefficiencies.

Proponents of this view hold that if agricultural markets are allowed to work freely, the agricultural sector will prosper. So that farmers, agribusinesses and consumers can make efficient decisions, it is necessary to eliminate any government actions that may interfere with market signals. The expectation is that all market forces—supply, demand, price, and structure—will respond to free market signals and adjust in a timely and efficient manner.

The Farmer-Oriented Solution

This view asserts that prices fell because the US eliminated policy mechanisms to manage productive capacity, and it recognizes the unique characteristics and nature of agricultural markets. Its advocates, noting that food production is central to human life, argue that governmental and business investments will increase agriculture's ability to produce more, better and safer food. They also recognize that neither agricultural supply nor demand, especially in the aggregate, is very responsive to changes in price. The expectation is that the agricultural sector will not respond to free market signals and adjust in a timely and efficient manner absent government intervention. This perspective comes down in favor of the need for government policy to manage productive capacity.

These two rival positions imply quite different policy prescriptions. The conventional, free-market view calls for eliminating market-distorting subsidies and government imposed protective measures. The farmer-oriented approach requires country-specific government policies that can manage—effectively and timely—the use of productive capacity.

WHAT IF WE GET RID OF SUBSIDIES?

While evidence points to low prices as the cause of high subsidies in the US, many experts around the world see just the opposite: that US subsidies are a major cause of low world prices. *If this is true, then eliminating subsidies should cause an appreciable increase in prices.* Those who seek to strengthen the "invisible hand" of unshackled market forces call for the immediate demise of all direct government payments, insisting that a non-subsidized American agricultural sector would work its way to a new equilibrium. They predict that US production would decline drastically, causing US prices and, consequently, world prices, to rise. This position is the one taken by the World Trade Organization (WTO). Their goal: to liberalize trade in agriculture and remove market-distorting subsidies. Given the strength of the trade liberalization movement, this approach is receiving considerable attention around the globe and has a number of supporters.

Worldwide Price Impacts

The International Food Policy Research Institute (IFPRI) recently conducted a study examining the effects of various trade liberalization scenarios on world commodity prices (IFPRI, 2003). Using the IMPACT agricultural sector model, IFPRI looked at the country-level and regional effects of trade policy scenarios on 16 commodities. One scenario required developed countries to remove protectionist measures and trade-distorting subsidies, or "price wedge" subsidies (producer and consumer subsidy equivalent price differences between domestic and international prices) by 2006 while developing countries maintain their existing policies. In removing all protectionist measures of every kind, this study sets an even stricter standard than simply eliminating US subsidy programs. The effects on world and regional prices are shown in table 2. *The bottom line: the much predicted price increases failed to appear appreciably or quickly.*

World corn prices experienced the largest gain among the cereals. Note that after 20 years, the extent of the price increase is less than 3 percent. The US experiences a price drop of 9.5 percent by 2020, while corn prices in identified developing countries increase between 2.4 and 2.6 percent. These mere traces of price movement after 20 years would be of little help in improving incomes of farmers in developing countries.

Other commodities are affected even less. Rice prices rose only 1.6 percent by 2020. The price of rice in the US declined 4.2 percent over the period while it increased between 1.1 and 1.6 percent in developing countries. The impact on wheat and other coarse grains is smaller still: a world price increase of 0.8 percent for wheat and 1.1 percent for other coarse grains by 2020.

The picture for meat and dairy commodities is entirely different. Baseline policies cause larger trade distortions for meat and milk compared to cereal. Thus, it is no surprise that starting from a high level of trade distortion, the complete removal of all protective policies results in significant price impacts. World dairy prices experienced the largest change, increasing 19.2 percent by 2020. World prices of beef, sheep and goats increased 5.2 percent by 2020. World poultry prices increased 3.8 percent and pork only 0.4 percent by 2020.

Table 2

Effects of Developed Country Trade Liberalization on World Prices and Regional Producer Prices, 2020 (*Source: IFPRI, 2003*)

	Baseline, 1997	Developed Country Subsidy Elimination, 2020			
	World / Producer Price (1)	World Price (1)	% Change from Baseline	Producer Price (1)	% Change from Baseline
Beef	1,748	1,839	5.2%		
Pork	2,245	2,254	0.4%		
Poultry	716	743	3.8%		
Sheep & Goats	2,841	2,989	5.2%		
Milk	292	348	19.2%		
Wheat	123	124	0.8%		
Other Coarse Grains	89	90	1.1%		
Rice	252	256	1.6%		
USA	214			205	-4.2%
Mexico	196			199	1.5%
Other Latin America	196			199	1.5%
Central & W. Sub-Saharan Africa	178			180	1.1%
Southern Sub-Saharan Africa	141			143	1.4%
Indonesia	192			195	1.6%
Thailand	194			197	1.5%
Philippines	224			227	1.3%
Vietnam	220			223	1.4%
Corn	104	107	2.9%		
USA	95			86	-9.5%
Mexico	80			82	2.5%
Other Latin America	77			79	2.6%
CW Africa	40			41	2.5%
Southern Africa	42			43	2.4%
Indonesia	76			78	2.6%
Thailand	80			82	2.5%
Philippines	117			120	2.6%
Vietnam	80			82	2.5%

(1) Prices are in US$ per metric ton.

US Price Impacts

Simulations were conducted using another model, POLYSYS (see appendix C), assuming the removal of US marketing loan payments (loan deficiency payments and marketing loan gains), counter-cyclical program payments, and direct payments by 2003. Other government payments, including environmental and conservation programs and subsidies on commodities not included in this study (e.g., dairy, sugar, wool and mohair, honey, minor oilseeds), remain and are paid at the levels set by the 2002 Farm Bill.

While it is not realistic that all government commodity program payments would be eliminated in one year, this simulation demonstrates that the removal of government supports will result in an unambiguous and dramatic reduction in net farm income. The modest changes in price cannot make up for the lack of government payments: farmer income would drop 25 to 30 percent under this scenario.

In the US, the most dramatic result of eliminating government payments—between $13 and $18 billion per year—is a loss of $11 to $15 billion in net farm income, fully

Table 3

POLYSYS Simulation Results Under the Subsidy Elimination Scenario and Percentage Changes from the Baseline Scenario for Planted Acreage, Price, Net Farm Income, and Government Payments, 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Planted Acreage (mil. ac)									
Corn	81.2	79.2	78.7	78.2	78.4	79.5	78.8	79.9	78.8
% change from baseline	*1%*	*0%*	*0%*	*0%*	*1%*	*1%*	*1%*	*0%*	*0%*
Wheat	63.5	61.2	61.2	61.2	61.5	61.1	60.8	61.2	61.4
% change from baseline	*1%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Soybeans	72.7	74.1	74.9	75.4	75.9	75.1	76.6	75.6	77.4
% change from baseline	*0%*	*0%*	*1%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Cotton	13.0	13.8	13.8	13.8	13.4	13.6	13.7	13.7	13.6
% change from baseline	*-12%*	*-7%*	*-7%*	*-7%*	*-7%*	*-6%*	*-5%*	*-5%*	*-6%*
Rice	2.8	2.9	3.1	3.1	3.0	3.0	3.0	3.0	3.0
% change from baseline	*-14%*	*-9%*	*-5%*	*-7%*	*-7%*	*-6%*	*-6%*	*-5%*	*-5%*
Season Average Price									
Corn ($/bu)	$2.03	$2.12	$2.09	$2.19	$2.21	$2.24	$2.28	$2.25	$2.23
% change from baseline	*-2%*	*-2%*	*-1%*	*-2%*	*-2%*	*-2%*	*-3%*	*-3%*	*-3%*
Wheat ($/bu)	$2.80	$2.85	$2.80	$2.87	$2.89	$2.89	$2.94	$2.97	$2.94
% change from baseline	*-2%*	*-1%*	*-1%*	*0%*	*-1%*	*-1%*	*0%*	*0%*	*0%*
Soybeans ($/bu)	$4.80	$4.96	$4.71	$4.88	$4.89	$5.14	$5.07	$5.15	$5.04
% change from baseline	*0%*	*0%*	*0%*	*-1%*	*0%*	*0%*	*0%*	*1%*	*1%*
Cotton ($/lb)	$0.492	$0.498	$0.518	$0.511	$0.547	$0.576	$0.593	$0.600	$0.604
% change from baseline	*12%*	*12%*	*12%*	*10%*	*11%*	*10%*	*8%*	*7%*	*9%*
Rice ($/cwt)	$5.80	$6.12	$5.81	$5.90	$6.20	$6.41	$6.68	$6.74	$6.82
% change from baseline	*17%*	*19%*	*11%*	*11%*	*13%*	*12%*	*12%*	*10%*	*9%*
Net Farm Income (mil. $)	33,590	35,483	36,794	35,843	35,026	34,118	34,313	34,664	36,060
% change from baseline	*-28%*	*-30%*	*-29%*	*-29%*	*-26%*	*-27%*	*-26%*	*-25%*	*-25%*
Gov. Payments (mil. $)	8,344	4,191	4,615	3,733	3,908	3,916	3,974	4,112	4,238
% change from baseline	*-61%*	*-81%*	*-80%*	*-82%*	*-79%*	*-80%*	*-79%*	*-78%*	*-77%*

25 to 30 percent. Since only minor changes in price occur under this scenario, it is evident that most of the income loss results from the elimination of direct government payments. In summary, discontinuing government payments influences two groups of crops differently, but results in an unambiguous and dramatic reduction in net farm income. Acreage for rice and cotton declines. Consequently, their market prices rise. Corn, wheat, and soybeans experience some increase in plantings, and their prices decline, although slightly.

This result is not particularly surprising, given the nature of agricultural supply and demand. As we have seen, the total supply, or acreage, of major commodities taken together is not very responsive to changes in price, and the aggregate of the demands on major commodities, domestic and exported, does not increase significantly when prices are low.

Long run adjustments are likely to occur. If prices continue at very low levels without subsidies or other relief for farmers, production would eventually decline. Land prices would drop sharply. Capital resources would move out of agriculture and into other industries. Aggregate acreage would contract.

Disagreement arises as to how soon the acreage reduction would take place and how extensive it would be. Some argue that the shock of sudden and substantial declining revenues would force large quantities of land out of production quickly. Severe adjustments would occur in rural communities, including wide-spread bank failures. But if farmers remain true to past behavior, they or their replacements would try to find ways to cover the variable costs of producing on most of the land currently under cultivation. After a number of years and several waves of land price reductions, more significant quantities of land would come out of production, especially in areas of lowest yield. But this marginal cropland would likely be abandoned after the analysis period considered in this simulation.

As to loss of acreage, remember that large agribusiness interests in the US have an incentive to maintain productive capacity. It is entirely possible that production would be maintained through farmer contract arrangements with large agribusiness enterprises, similar to those currently pervasive in the US poultry industry.

Supporting Evidence from Other Countries

Over the last few decades, several countries have moved toward policies of reducing government involvement in agricultural markets. Canada, Mexico and Australia have established track records of fewer government controls and freer markets.

Changes in commodity production in these countries are the result of a complex array of factors. However, evidence clearly indicates that removal of and reductions in subsidies have not led to significant drops in production. In fact, production increased in several cases. These observations support the IMPACT and POLYSYS models' results that eliminating subsidies will not significantly or quickly reduce production or increase prices.

The Canadian Experience

Huge increases in Canadian agricultural subsidies through the 1980s contributed to less than a three-percent rise in the number of acres cultivated. Then, fiscal deficits in the 1990s forced a 35 percent cutback in Canada's support programs over a three-year period. The most notable was the erasing of all subsidies for grain transportation in 1995. This and other significant reductions in government support levels between 1996 and 2001 resulted in less than a one-percent decline in farmland use.

The Canadian experience drives home yet again that cropland will remain in production, despite major subsidy cuts. But the mix of crops farmed did change significantly in direct response to government policy changes. Three crop groups historically account for just over half of Canada's total farmland: (1) wheat, (2) selected grains (oats, barley, and corn), and (3) selected oilseeds (principally canola but also including flaxseed, soybeans, sunflower, and mustard seed).

Figure 12 shows the Canadian acreage planted to each of these three crop groups since 1981. Between 1991 and 2001, acreage of Canada's leading crop, wheat, declined 23 percent. The elimination of subsidies for grain transportation in 1995 was a major contributor to this significant shift. Over the same period, oilseed production increased 143 percent. While the crop mix changed as relative prices and program payments changed, aggregate land in production changed little.

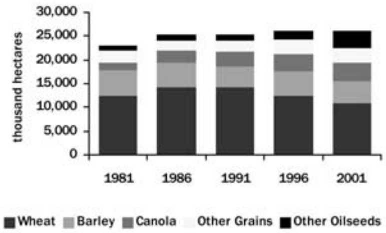
The Australian Experience

The Australian experience again demonstrates the tendency of farmers to continue to produce as much as they can, even when faced with declining government subsidies. Since 1991, despite continuing low world prices, planted areas of wheat, coarse grains, and oilseeds have increased more than 56 percent in Australia, as shown in Figure 13.

The Australian experience illustrates an interesting relationship between the crop and livestock components of Australia's agricul-

Figure 12

Canadian Farmland Planted to Major Crop Groups, 1981-2001

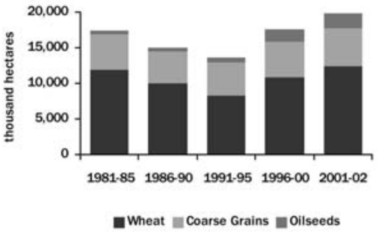


Between 1991 and 2001, Canadian wheat acreage declined 23 percent. Much of the lost wheat acreage was converted to oilseed production. Total oilseed acreage increased 143 percent between 1981 and 2001, now accounting for 8.5 percent of total Canadian farmland. Oilseed gains were primarily in canola and soybeans.

Source: Agriculture Canada

Figure 13

Total Planted Area by Crop Group, Australia, 1981-2002



Total planted area in Australia has more than doubled since the 1960s, increasing nearly 50 percent since the early 1990s. The increase since 1991 has been driven by the reduction in wool subsidies and declining sheep numbers. Sheep farmers have converted pastures to crop production.

Coarse grains includes barley, oats, sorghum, maize, and triticale.

Oilseeds includes canola, cottonseed, linola, linseed, peanuts, safflower, soybeans, and sunflower.

Source: Australian Commodity Statistics 2001, Australian Bureau of Ag and Resource Economics

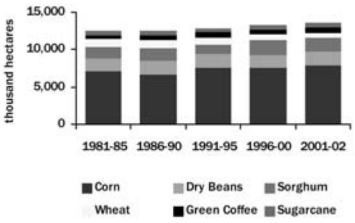
tural sector. Australia is the world's leading supplier of wool with sheep production representing a large share of agricultural receipts. The Australian government's support for wool production collapsed in 1991, contributing to a 31 percent decline in sheep inventories since 1991. Faced with declining government supports for wool, sheep farmers converted significant pasture acreage to crop production. This experience provides further evidence for the observation that farmers will remain in agriculture and continue to produce as much as they can—even in the face of declining prices and declining subsidies—as long as they can.

The Mexican Experience

Mexico's four major crops—corn, dry beans, grain sorghum, and wheat—account for about 80 percent of the total harvested area, with green coffee and sugarcane comprising an additional nine percent. Total har-

Figure 14

Mexico's Total Harvested Land by Crop, 1981-2001



Mexico's four major crops—corn, dry beans, grain sorghum, and wheat—account for about 80 percent o the total harvested area, with green coffee and sugarcane comprising an additional nine percent.

In the early 1990s, Mexico virtually eliminated price supports for major crops in transition to a more liberalized agricultural economy.

NAFTA was implemented in 1994, allowing importation of US corn.

Source: SIACON; FAO

vested area and the share of the six major crops is shown in Figure 14.

Mexico's harvested acreage data reveal an upward trend since the 1980s. Notably, corn acreage has increased nearly 18 percent since 1986. This increase in acreage has occurred over a period of significant reductions in Mexican government supports for the agricultural sector and also a period of significant increases in foreign competition inside Mexico.

Beginning in the early 1990s, Mexico eliminated supports for some commodities, reducing the number of commodities eligible for price supports from twelve to three. Remaining price supports were converted from per-unit to per-acre to conform to trade liberalization pressures.

Additional and more significant program support reductions followed in the mid-1990s. Implementation of a new government program in 1994, PROCAMPO, moved supports in the direction of direct, decoupled income transfers. More importantly, implementation of the North American Free Trade Agreement (NAFTA) in 1994 called for phasing out import quotas for US commodities. The stated objective of NAFTA was to allow the Mexican agricultural sector to profit from liberalized trade. The observed result has been increased domestic production of basic crops, including corn, despite unprecedented access to cheaper foreign imports of major commodities. Confronted with sharply lower prices, declining government support, and new trade liberalization measures, acreage and production of traditional crops in Mexico has continued to increase.

A FARMER-ORIENTED POLICY BLUEPRINT

Although touted widely as "the" solution to the current agricultural crisis, eliminating subsidies in the US or even in all developed countries will not result in timely price increases of a magnitude that could help the world's large population of small farmers. Subsidy elimination would cause a shift in the mix of crops produced and, therefore, some relative changes in prices, meaning that some farmers and countries will be helped and others harmed. But the overall impacts are negligible. Getting rid of subsidies will certainly not result in the levels of agricultural prosperity claimed by its advocates.

Well, if phasing out subsidies will not solve the problem, what will raise prices and improve the lives of farmers? One compelling option is to explore the use of price-enhancing and stabilizing mechanisms from the rich history of American agricultural policy in addressing today's failures. The changes of the late 20th century were driven by the belief that the upswing in exports resulting from lower prices would usher in a booming agriculture sector. The lower prices have, indeed, occurred, but a boom is nowhere to be seen.

One saving course of action is to redirect the goal away from low market prices and high subsidies and toward managing productive capacity. Managing the excess is an explicit recognition that the farming community is not capable of a timely response to changes in supply and demand. Carefully crafted and implemented policies can provide a reasonable and sustainable level of farm prices and income, a higher level of stability, increased dependence on market revenues and less reliance on government payments. An appropriate cluster of policies could improve the position of American farmers and provide relief to farmers around the world.

A Policy Blueprint

The idea is to increase market prices to a reasonable and sustainable band and then manage the excess. Several combinations of policy tools show promise as paths to achieving this objective. This study identifies and analyzes one such combination. It includes: (1) acreage diversion through short-term acreage set-asides and longer-term acreage reserves; (2) a farmer-owned food security reserve; and (3) price supports through government commodity purchases.

No single policy instrument is powerful enough to address the complicated issues presented by the current crisis. The policy blueprint illustrated here consists of several instruments working together. This blueprint is not meant to exclude other policy mechanisms that may be able to achieve the goals of higher and stable prices. Rather, it serves as a starting point for evaluating the potential for alternative policy directions to bring about positive changes.

Diversion of Acreage

The diverted-acreage component includes a short-term annual set-aside program and a long-term land retirement program. Acreage retirement would reduce excess production and improve environmental performance. Farmers would be encouraged to retire environmentally sensitive cropland for ten or more years and institute conservation or restoration practices on the retired land. This policy is currently in operation as the Conservation Reserve Program (CRP).

Short-term set-asides would avoid the occurrence of very low prices by inducing farmers to idle a portion of their working cropland. As the average market price falls below a threshold, a set-aside rate is triggered. The set-aside rate is the portion of a producer's cropland that must be idled for that crop year. Participation of farmers in the set-aside program would be a prerequisite to their receipt of farm program benefits. It is expected farmers would idle some of their less productive cropland, thereby reducing the effectiveness of the set-aside program.

Food Stock Management

The second element of the blueprint is a food stock or inventory management reserve program. Stock reserves would reduce the frequency and size of price spikes for the major commodities. Historically, large price spikes pull idle or new cropland into production. As seen earlier, newly introduced acreage will tend to remain in production even as prices fall.

When prices are below the defined threshold level, producers would enroll a share of their production in an on-farm storage program. The farmer holds the commodity on reserve, isolating it from the market, in exchange for a storage payment from the government. The farmer maintains full ownership. When the price increases beyond a threshold price—called the "release price"—producers are given strong incentives to sell reserves until the price drops. Handled in this manner, the reserve becomes a genuine price support mechanism, effective according to its size. Because the size of most reserves would be limited, the reserve operates as a temporary weapon against depressed prices. The expected short duration of specific reserves works to limit the government's storage payments.

Price Supports

The third element—a price support mechanism—would trigger government purchases of commodities from the market when the price falls below the threshold. The price support comes into play only when set-asides "miss" a low price event. Since the purchased stocks would be owned by the government, they would be the first to return to the market when the price increases beyond the release price. The purchased stocks provide an added margin against price spikes.

While a non-recourse loan is technically operational in the current farm policy legislation, it does not function as a price floor because of the availability of the loan deficiency payment (LDP) and marketing loan gain (MLG) options. By eliminating the LDP and MLG options, this policy blueprint restores the function of the non-recourse loan rate as a price floor.

Previous Experience

These are not new policy tools. Each has played a role in US farm policy history, and none has an unspotted record. However, assessment and perception of their past performance has had more to do with implementation than anything else. The contention is that the illustrative combination of the above three instruments would provide a workable set of controls leading to higher prices and higher market returns for producers.

Results of Implementing the Blueprint

A simulation of the blueprint of policy instruments—acreage set-asides, stock/inventory management and price supports—was conducted using the POLYSYS model. The purpose was to estimate performance over the period from 2003 to 2011. Details of the assumptions incorporated in the illustrative simulation model are provided in Box 5. Obviously, the particular size, rates, prices and triggers associated with this approach (i.e., the selected assumptions according to Box 5) will directly affect the outcome. Thus, the results serve as a starting point for discus-

Box 5 — Details of the Policy Blueprint Simulated

Elimination of Government Payments

- No counter-cyclical payments (CCP)
- No direct payments (DP)
- No loan deficiency payments (LDP) or marketing loan gains (MLG)

Stock Management

- Storage payments: $0.30/bushel for corn, wheat, soybeans; $0.30/hundred-weight for rice
- Maximum stock size:
    - Corn: 3,000 million bushels; approximately 30% of total use
    - Wheat: 700 million bushels; approximately 30% of total use
    - Soybeans: 700 million bushels; approximately 25% of total use
    - Rice: 40 million hundred-weight; approximately 20% of total use
- On-farm storage
- Entry level price/loan rate:
    - Corn: $2.44/bushel
    - Wheat: $3.44/bushel
    - Soybeans: $5.50/bushel
    - Rice: $7.15/hundred-weight
- Release price:
    - Corn: $3.90/bushel
    - Wheat: $4.80/bushel
    - Soybeans: $8.00/bushel
    - Rice: $10.40/hundred-weight

Set-Aside / Short-Term Land Retirement Program

- Cropland set-aside, *not crop-specific* set-aside
- Set-aside trigger: for every crop with a previous year price below the established price threshold, a 5% set-aside is triggered. The set-aside is additive across crops. A set-aside is triggered by rice for not meeting the established threshold only if it is the only crop not meeting the threshold price.
- Hence, the maximum set-aside rate is 15%
    - Corn: $2.90/bushel
    - Wheat: $4.10/bushel
    - Soybeans: $6.60/bushel
    - Rice: $8.50/hundred-weight
- The corresponding slippage rates are:
    - 5% set-aside: 0.67
    - 10% set-aside: 0.585
    - 15% set-aside: 0.50

Price Support Mechanism

- A price support program, through government commodity purchases, is implemented only after the maximum level of the stock reserve has been achieved
- Prices are supported at the entry price for the stock reserve program, which is in fact a price floor:
    - Corn: $2.44/bushel
    - Wheat: $3.44/bushel
    - Soybeans: $5.50/bushel
    - Rice: $7.15/hundred-weight
- Government stocks are released before the reserve stocks are released and at price levels similar to those for exiting reserve stocks:
    - Corn: $3.90/bushel
    - Wheat: $4.80/bushel
    - Soybeans: $8.00/bushel
    - Rice: $10.40/hundred-weight

Table 4

POLYSYS Simulation Results Under the Farmer-Oriented Policy Blueprint and Percentage Changes from the Baseline Scenario for Planted Acreage, Price, Net Farm Income, and Government Payments, 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Planted Acreage (mil. ac)									
Corn	76.2	76.3	77.6	77.2	78.3	79.2	80.2	81.1	82.0
% change from baseline	-5%	-4%	-1%	-1%	0%	0%	2%	2%	5%
Wheat	59.5	61.2	61.9	62.0	62.6	62.6	63.1	63.3	60.8
% change from baseline	-5%	0%	1%	1%	2%	2%	3%	4%	-1%
Soybeans	69.0	69.9	70.6	70.9	71.4	71.3	71.7	71.8	72.7
% change from baseline	-5%	-5%	-5%	-6%	-6%	-5%	-6%	-5%	-6%
Cotton	12.6	12.9	13.1	13.0	12.7	12.9	13.0	13.2	13.1
% change from baseline	-14%	-13%	-12%	-12%	-12%	-11%	-10%	-9%	-9%
Rice	2.9	3.0	3.1	3.1	3.1	3.0	3.0	3.0	3.0
% change from baseline	-9%	-8%	-5%	-4%	-4%	-6%	-6%	-6%	-6%
Season Average Price									
Corn ($/bu)	$2.59	$3.03	$2.94	$3.07	$3.03	$3.04	$3.07	$3.12	$3.13
% change from baseline	25%	40%	39%	38%	35%	32%	31%	34%	37%
Wheat ($/bu)	$3.63	$3.72	$3.70	$3.72	$3.70	$3.71	$3.73	$3.72	$3.93
% change from baseline	28%	29%	31%	29%	27%	28%	28%	25%	34%
Soybeans ($/bu)	$5.71	$6.14	$5.99	$6.19	$6.14	$6.31	$6.36	$6.41	$6.23
% change from baseline	18%	23%	27%	26%	25%	23%	26%	25%	24%
Cotton ($/lb)	$0.508	$0.542	$0.561	$0.550	$0.591	$0.616	$0.640	$0.640	$0.644
% change from baseline	16%	22%	21%	19%	20%	17%	17%	14%	16%
Rice ($/cwt)	$7.18	$7.20	$7.21	$7.22	$7.26	$7.33	$7.57	$7.60	$7.72
% change from baseline	45%	41%	38%	35%	32%	28%	27%	24%	24%
Net Farm Income (mil. $)	38,958	46,114	49,867	49,643	48,656	47,421	47,439	48,327	50,365
% change from baseline	-16%	-9%	-4%	-1%	3%	1%	2%	4%	5%
Gov. Payments (mil. $)	13,936	6,300	7,801	6,351	6,811	6,874	7,410	7,418	7,932
% change from baseline	-35%	-71%	-66%	-70%	-64%	-64%	-61%	-58%	-57%

sion. Table 4 presents the simulation results for crop acreage, prices, net farm income and government payments.

Total cropland planted to the eight major crops declines by six percent in the first year. The total planted acreage drops by an average of 14 million acres at the beginning of the period, and is 4.5 million acres lower than the baseline by 2011. The initial dramatic drop can be explained by the relatively large initial acreage set-aside established to raise prices. When prices increase, the acreage set-aside is reduced, as discussed above. The aggregate acreage set-aside ranges from 19 to 35 million acres over the period.[22]

As expected, the largest relative acreage losses came from cotton and rice. Initially, cotton acreage was reduced by 2.1 million acres, or 14 percent. Thereafter, acreage slowly increased to a level nine percent below the baseline by 2010. Rice acreage initially declined by nine percent, settling in at six percent below the baseline by 2008. Corn and wheat acreage initially declined because of the large beginning set-asides, yet this acreage returned to levels above the baseline as relative prices caused some cotton and rice acreage to shift to corn and wheat.

The three-tiered combination of policy mechanisms—the set-asides, stock reserves

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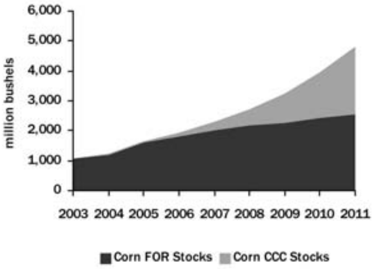
[22] The lack of a one-to-one correspondence between active cropland reductions and acreage set-asides is attributable to slippage and the setting aside of lands that would periodically remain idle anyway.

Figure 15

Corn Reserve (FOR) Stock and Government (CCC) Stock Levels, 2003-2011



By design, the farmer-owned stock reserve fills first. By the third year, the government stock purchase (CCC purchases from the market) program begins to accumulate stocks.

The farmer-owned stock reserve averages below the three billion bushel maximum. In actual implementation, measures (such as stock adjustments or caps) would be put in place to prevent excessive stock accumulations.

and price supports—resulted in average prices well above the low baseline levels. The price of corn increased on average by $0.70 to $0.80 per bushel, a 30 percent increase. The price of rice increased from 24 to 45 percent. Initial rice prices were about 45 percent higher than baseline levels and only about 24 percent higher than baseline prices by the end of the simulation period. Wheat prices were 25 to 31 percent higher; soybean, about 23 percent higher.

The general increase in prices leads to net farm income close to and above the baseline. After 2006, net farm income exceeds the baseline. The gap during the first years is largely the result of adjustments in the livestock sector to higher feed costs. In fact, the gap in the returns to crops is only $1.7 billion lower in 2003, and future estimates are consistently above the baseline level.

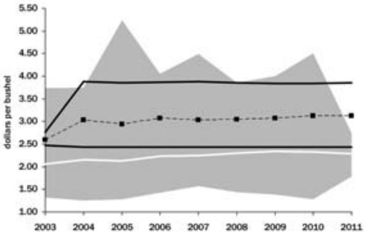
As expected, government payments were significantly below the baseline situation. The figure in table 4 shows the total cost of direct payments to farmers and the expenses associated with the reserve and price support programs. Total government outlays start just under $14 billion in 2003, when most of the reserves need to be filled, and then fluctuate between $6.3 and $7.9 billion, consistently lower than the estimated subsidies and other expenses under the 2002 Farm Bill. On average, the blueprint simulated results in huge government savings: $10 to $12 billion per year.

The results for corn stock reserves and government stock programs are shown in Figure 15. Notice that the average reserve level is less than the maximum three billion bushels. This is a strong indicator that the reserve keeps the price of corn from soaring to levels beyond the release price. In actual implementation, measures would be put in place to prevent excessive stock accumulations. Such measures could include adjustments in set-aside rates or caps on stock levels.

Figures 16 and 17 illustrate the impact of the blueprint on price and income variability. Under the baseline policies of the 2002 Farm Bill, the shaded area in Figure 16 outlines the points at which the price of corn will fall with 90 percent probability. The white line indicates the average price for the baseline scenario. The area between the black lines indicates, with the same 90 percent probability, the price of corn under the blueprint. The black broken line within the black price band represents the average annual price. It is clear

Figure 16

Corn Season Average Price Probabilities, Baseline Scenario Versus the Farmer-Oriented Policy Blueprint Scenario, 2003-2011



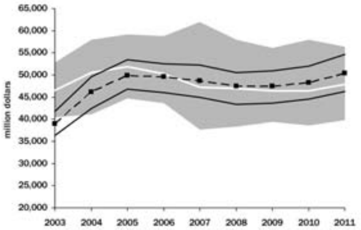
The shaded area indicates the baseline area in which the price of corn will fall with a 90 percent probability, and the baseline average corn price is the white line.

The solid black bands indicate the policy blueprint scenario area in which the price of corn will fall with a 90 percent probability, and the policy blueprint scenario average corn price is the dotted black line with squares.

From this graph, it is evident that the policy blueprint scenario truncates both the upper and lower tails of the price distribution compared to the baseline.

Figure 17

Net Farm Income Probabilities, Baseline Scenario Versus the Farmer-Oriented Policy Blueprint Scenario, 2003-2011



Again, the shaded area indicates the baseline area in which net farm income will fall with a 90 percent probability, and the baseline average is the white line.

The solid black bands indicate the policy blueprint scenario area in which net farm income will fall with a 90 percent probability, and the average under the policy blueprint scenario is the dotted black line with squares.

It is evident that the policy blueprint scenario requires farmers to give up the possibility of achieving very high income levels in exchange for eliminating the possibility of very low income levels.

that the blueprint works effectively at both ends: the upper and lower tails of the price distribution are flattened. The upper tail is truncated by the stock reserve programs; the lower tail, by the set-aside and price support programs.

Figure 17 applies the same type of analysis to net farm income. This blueprint demonstrates that the upper and lower tails of the distribution of net farm income have been truncated. Farmers will give up the possibility of achieving very high income levels in exchange for eliminating the possibility of very low income levels.

Table 5

POLYSYS Simulation Results Under the Farmer-Oriented Policy Blueprint Replacing Annual Acreage Set-Asides with Intermediate-Term Bioenergy-Dedicated Crops and Percentage Changes from the Baseline Scenario for Planted Acreage, Price, Net Farm Income, and Government Payments, 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Planted Acreage (mil. ac)									
Corn	79.6	80.2	78.5	78.6	78.9	79.4	79.6	79.5	78.6
% change from baseline	*-1%*	*1%*	*0%*	*1%*	*1%*	*0%*	*2%*	*0%*	*0%*
Wheat	59.0	58.9	58.9	58.8	59.2	58.8	58.6	58.6	58.3
% change from baseline	*-6%*	*-4%*	*-4%*	*-4%*	*-3%*	*-4%*	*-4%*	*-4%*	*-5%*
Soybeans	70.1	68.9	71.0	70.9	71.1	70.6	71.0	70.8	72.6
% change from baseline	*-3%*	*-7%*	*-5%*	*-6%*	*-6%*	*-6%*	*-7%*	*-7%*	*-6%*
Cotton	13.0	13.1	12.8	12.7	12.2	12.4	12.4	12.6	12.2
% change from baseline	*-12%*	*-12%*	*-14%*	*-14%*	*-16%*	*-14%*	*-14%*	*-13%*	*-15%*
Rice	3.0	3.0	3.0	2.9	2.9	2.8	2.8	2.8	2.9
% change from baseline	*-7%*	*-8%*	*-8%*	*-11%*	*-11%*	*-13%*	*-12%*	*-12%*	*-8%*
Switchgrass	6.0	6.7	7.3	8.0	8.5	9.2	9.7	10.1	10.6
Season Average Price									
Corn ($/bu)	$2.52	$2.83	$2.85	$2.96	$3.00	$3.02	$3.08	$3.15	$3.14
% change from baseline	*22%*	*31%*	*34%*	*32%*	*33%*	*32%*	*31%*	*36%*	*37%*
Wheat ($/bu)	$3.63	$3.84	$3.86	$3.88	$3.88	$3.96	$4.05	$4.05	$4.17
% change from baseline	*28%*	*33%*	*36%*	*35%*	*33%*	*36%*	*38%*	*36%*	*42%*
Soybeans ($/bu)	$5.69	$6.15	$5.93	$6.13	$6.16	$6.43	$6.48	$6.54	$6.36
% change from baseline	*18%*	*24%*	*25%*	*25%*	*26%*	*25%*	*28%*	*28%*	*27%*
Cotton ($/lb)	$0.500	$0.530	$0.570	$0.580	$0.630	$0.650	$0.700	$0.700	$0.730
% change from baseline	*14%*	*19%*	*23%*	*25%*	*28%*	*24%*	*28%*	*25%*	*32%*
Rice ($/cwt)	$7.18	$7.19	$7.29	$7.39	$7.51	$7.84	$8.04	$8.30	$8.37
% change from baseline	*45%*	*40%*	*40%*	*39%*	*37%*	*37%*	*35%*	*35%*	*34%*
Net Farm Income (mil. $)	37,079	45,691	50,714	50,189	49,031	48,879	49,108	50,559	52,650
% change from baseline	*-20%*	*-10%*	*-2%*	*0%*	*4%*	*4%*	*6%*	*9%*	*10%*
Gov. Payments (mil. $)	14,238	7,172	8,153	6,566	6,670	6,464	6,214	6,107	5,750
% change from baseline	*-34%*	*-67%*	*-64%*	*-69%*	*-65%*	*-67%*	*-67%*	*-67%*	*-69%*

Bioenergy Crops to Manage Production

As previously mentioned, other policy devices might serve as substitutes for any one of the three instruments in the blueprint. For example, an intermediate-term program to divert acreage away from traditional tradable crops toward a non-food, non-tradable crop might serve to replace the set-aside device. Switchgrass immediately comes to mind. This is a perennial grass with high cellulose content, native to the United States. Relatively clean burning, it can be co-fired with coal to reduce the level of pollutants released into the atmosphere or it can be processed into ethanol for the production of fuels with consequent environmental benefits.

Practices associated with the production of switchgrass are no different from those used to produce alfalfa hay. In contrast to a land retirement program the cultivation of switchgrass is a farming activity.

Switchgrass is enjoying a great deal of attention these days. The US Department of Energy is currently conducting numerous pilot projects testing the application of switchgrass to a variety of uses. Studies by the US Departments of Agriculture and Energy, the University of Tennessee, and the Oak Ridge National Laboratory conclude that a framework could be developed to encourage the conversion of acreage to the production of switchgrass for use by utilities and fuel manufacturers (De La Torre Ugarte and Walsh, 2003). This would give an obvious boost to farm income and would reduce reliance on subsidies. Incentives would be needed to encourage utilities to incorporate switchgrass into their energy generation, but the use of switchgrass would work to reduce reliance on undesirable fossil fuels.

According to the simulation, the annual set-aside component of the blueprint can be replaced realistically with a bioenergy production program using switchgrass for energy. An incentive would provide up to $25 per dry ton to be shared by pre-arrangement among agricultural producers, utilities, and ethanol producers. According to De La Torre Ugarte and Walsh, this monetary incentive would be sufficient for both producers and end users to develop a long-term sustainable bioenergy industry (De La Torre Ugarte and Walsh, 2002).

Table 5 shows that the overall levels of price increase from a switchgrass application are comparable to those generated by the set-aside program. To compensate for the loss of income in the first few years, some of the significant savings generated under the blueprint could be used. By the end of the period of analysis, the effect promises to be stunning: net farm income could experience growth of ten percent above the baseline situation, and government payments, including the $25 incentive, could be reduced by a remarkable 69 percent.

Thus the illustrative blueprint is not rigid in the assumption that annual set-asides are a necessary component. Similar levels of price and acreage impacts can be achieved with land retirement, and even better results with the cultivation of acreage in a way that does not pressure traditional crop acreage and prices. This approach is even more appealing when the alternative land use is in a non-food, non-traditional category. Diverted land can be brought back to major crops if unexpected weather jeopardizes the supply of food or if other conditions warrant. One other possibility is the dedication of traditional crops exclusively to energy production.

CRP Expansion Could Achieve Similar Impacts

The acreage planted to switchgrass in Table 5 is an approximation of the lower limit for an expansion of CRP acreage that could achieve similar price and income results. This is because acreage enrolled in the CRP is more likely to be environmentally sensitive than the switchgrass acreage, thus average productivity of CRP acreage would likely be lower. Further expansion of CRP acreage may provide additional environmental benefits.

Summary

In summary, the preliminary estimation of impacts associated with the blueprint suggests that this approach has potential for sizable benefits to producers. It would increase US prices substantially—by about one third, on average—without significantly reducing farm income, and at less than half the cost of current failing policies. From a purely humanitarian and societal view, its impact on US market prices would go a long way in sustaining the livelihoods of small, poor farmers worldwide.

CONCLUSIONS

It is time to recognize that low-price farm policies benefit agribusinesses, integrated livestock producers, and import customers but are disastrous for market incomes of crop farmers in the US and around the world.

Higher prices alone will not guarantee sustainable livelihoods for the world's poorest farmers. A range of national and international policies affecting credit, land ownership, technology, transportation, tariff protection and access to markets is essential if agricultural production is to deliver a better future for farmers. However, as this study has shown, the US is exporting poverty with its products by its continuous pursuit of measures that depress prices throughout the world. At the same time, it is jeopardizing its own diversified family-farm base.

Policies that assure rock-bottom world prices for staple foods are guarantors of continued economic distress affecting billions of people. Since our policies determine the fate of farmers well beyond our borders, the welfare and future of those farmers must be part of America's goal in crafting new approaches.

Changing US policy alone cannot solve the global crisis in agriculture. Most, if not all, major exporting countries will have to recognize that they, too, bear a heavy responsibility to cooperate with the US in a concerted effort to improve farmer livelihoods. If other nations do not recognize this responsibility, it is doubtful that the necessary changes will ever be enacted.

The emphasis on WTO-style trade liberalization has discouraged the use of some of the policy mechanisms described in this study. That doors have been shut, however, is not a reason to continue moving blindly in the wrong direction. Those who write the rules governing domestic and international agriculture and trade policy must be put on notice that an end to today's agricultural world crisis is their most urgent mandate. The way out lies in a careful and balanced application of policy measures discarded in our headlong rush to an imagined "free market" in agriculture.

A future that brings prosperity to farmers in the US and in the developing world is not only possible, it is achievable. It can be ours at less cost and within a shorter time span than the hoped-for benefits of liberalized agricultural trade promised by the wealthy nations of the world to their developing country counterparts. The choice is ours to make: whose future will be protected, and what kind of global food system will be the outcome of US agricultural policy?

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APPENDIX A

Types of Farm Programs & Policy Instruments	Objective / Purpose	Program Examples	Description / How It Works
Income Support Programs			
Direct Payment Programs	Decoupled income support payments. Designed as a "transition" away from commodity payment programs.	Production Flexibility Contract (PFC or AMTA) Payments; Direct Payments	Lump-sum, decoupled payments to participants in previous farm programs; payments calculated on yield history and program-crop acreage.
Disaster / Emergency / Ad Hoc Payment Programs	Unscheduled assistance in response to weather or market or other unanticipated negative conditions.	Market Loss Assistance Payments; Crop Loss Assistance Payments; Livestock Disaster Payments	
Marketing Assistance Loans & LDPs	To provide producers with interim financing on their eligible production and prevent government acquisition of stocks.	Loan deficiency payments (LDPs); marketing loan gains	Producers receive a nonrecourse commodity loan which they may repay at less than principal plus interest when market prices are below the loan rate or they may choose to receive an LDP in lieu of securing a loan.
Deficiency / Target Price / Counter Cyclical Payment Programs	Crop-specific or decoupled income support payments paid when crop prices are below a target price; decline or disappear as market prices increase.	Deficiency payment program (also called target price program); counter cyclical payment program	Payments made based on the difference between an established target price and the higher of the commodity loan rate or the national average market price.
Price Support & Stabilization Programs			
Nonrecourse Loan Program	To provide a price floor at the loan rate, strengthen prices by withdrawal of commodities from the market, and even out marketings throughout the year.	Nonrecourse loan program	Provides commodity-secured loans to producers for a specified period of time, after which the producer may either repay the loan and accrued interest or transfer ownership of the commodity pledged as collateral to the CCC as full settlement of the loan.
Farmer-Owned Reserve (FOR) Program	To reduce price volatility and assure ample stocks in times of short supply through subsidized long-term storage of grain.	Farmer-Owned Reserve	Producers entered into a 3-year agreement receiving a nonrecourse commodity loan with the possibility of deferred interest and storage cost reimbursement in exchange for some restriction on the timing of grain removal from the reserve.
Marketing Orders	Specify minimum prices processors must pay for products within a specified area.	Federal milk marketing orders	
Production Management Programs			
Annual Acreage Reduction Programs	Raise crop prices by reducing production through annual land retirement.	Acreage reduction programs (ARPs); set-aside programs; paid land-diversion programs	Participating farmers idled a crop-specific, nationally set portion of their crop acreage base to be eligible for CCC loans and deficiency payments.
Multi-Year Acreage Reduction Programs	Long-term (10-15 year) retirement of environmentally sensitive cropland.	Conservation Reserve Program (CRP); Wetlands Reserve Program (WRP)	Landowner receives an annual rental payment to convert environmentally sensitive land to approved conserving uses for 10-15 years.
Marketing Quota or Allotment Programs	Raises crop prices by restricting supply below the market-clearing quantity.	Peanut marketing quota program; federal tobacco marketing quotas; sugar allotment program	Provide each processor or producer of a specified commodity a specific annual limit on sales, above which penalties would apply.
Demand Enhancement Programs			
Export Programs	Help US exporters meet competitors' prices in subsidized markets.	Export Credit Guarantee Program; Export Enhancement Program; P.L.480 (food aid)	Exporters receive subsidies based on the volume of exports to specifically targeted countries.
Domestic Programs	Subsidize or promote domestic purchase/use of commodities to increase domestic utilization and achieve social objectives.	Food Stamps; commodity distribution programs; commodity promotion programs	Distributes surplus government commodity stocks or subsidizes the purchase of qualifying commodities.
Import Restriction Programs			
Tariff & Quota Programs	Raise domestic crop prices by reducing the amount of lower priced imports allowed to enter the domestic market.	Non-tariff barriers; tariff-rate quotas (TRQ); fixed tariffs; bound tariffs; import quotas	Tariffs are surcharges applied to import commodities; quotas are import quantity restrictions; TRQs allow a predetermined quantity of imports to enter after payment of a relatively low tariff.
Conservation Programs			
Working Lands Programs	Improve the environmental performance of the agricultural sector.	Environmental Quality Incentives Program (EQIP); Conservation Security Program	Participating farmers receive cost-share or direct payments to address onsite and offsite problems with soil erosion, animal waste, and water quality.
Non-Working Lands Programs	Preserve and restore agricultural and environmental resources.	Farmland Protection Program; Conservation Reserve Program; Wetlands Reserve Program	Participating farmers receive cost-share or direct payments to remove environmentally sensitive lands from production or restore/preserve desirable habitats.
Other Government Programs			
Subsidized Federal Crop Insurance	Provides farmers with a means to manage the risk of crop losses resulting from natural disasters.	Catastrophic (CAT) insurance coverage; multi-peril crop insurance (MPCI); revenue insurance	Federal government subsidizes producer insurance premiums.
Government Sponsored Research	Increases agricultural productivity through technological developments or reduced costs.	Agricultural Research Service; Cooperative State Research, Education, and Extension Service (CSREES)	

APPENDIX B

Sources of the Current Agricultural Crisis: Views and Policy Prescriptions

Conventional Academic Economists

This group includes such writers as Bruce Gardner, David Orden, Kym Anderson, Vincent Smith and Joseph Glauber. They currently represent the most prevalent viewpoints in global policymaking arenas. They argue that agricultural support and protection programs are fatally defective. In a world without government policies that interfere with the mechanisms of the marketplace, the free market will attract resources to the most productive activities, and this will deliver net benefits to society. This group believes governments can best support "non-market" objectives through non-distorting methods like the decoupling of payments from the dynamics of the marketplace. They hold that US agricultural policy is moving in the right direction.

Free Marketers

This is the position taken by conservative "think-tanks" such as the Heritage Foundation and the Cato Institute. The group includes such writers as John Frydenlund, Brian Riedl, and Chris Edwards. John Frydenlund, in the Heritage Plan for Rural Prosperity, argued that competition in the free market would greatly benefit US farmers. "Re-established as a reliable supplier of low-cost products, the US would regain its preeminence in world agricultural exports. Farmers would be freed to do what they do best—out-produce the rest of the world—and this expansion of productive output would mean growth in farm income, even though some prices might fall temporarily" (Frydenlund, 1995). The free marketers believe that the only weaknesses in the marketplace today are caused by policy makers who cave in to special interests during a time of naturally depressed prices. "Farms that cannot adjust should exit the industry" (Edwards, 2001).

New Economy Theorists

This group observes that "consolidation and supply chains are changing the nature of farming," where "supply chains arise through vertical integration, in which a single company owns each link of the supply chain" (Lamb, 2002). They argue that "keeping inefficient producers afloat leads to excess supplies, low prices, instability and future farm crises" (Lamb, 2002). Additionally, the "New Farm Economy" will supply safer food because "supply chains have greater incentives to enhance food safety" (Lamb, 2002).

The new economy theorists cite two problems that would arise if government subsidies were discontinued: a failure of financial banking throughout rural America, and too much political "rent seeking" power in the hands of farmers. They propose a rolling buyout procedure to cull from the market those farmers who rely too heavily on government assistance. "During periods of low farm income or low farm prices, farmers would have on option to enter a buyout agreement with the government or to remain in agriculture without government subsidies" (Lamb, 2002). The rolling buyout plan, they predict, will usher in vertical integration and consolidation in such magnitude that producers could gain market control, and overproduction would cease to be a problem. Lamb states that "the key to finally ending government interventions is to create a farm system in which the remaining farmers see greater returns from market transactions than from government farm programs" (Lamb, 2002).

Demise Theorists

The most extreme free-market prediction was made by Steven Blank, a University of California agricultural economist. He argues that since US farmers cannot compete in the production of bulk commodities with farmers in other parts of the world, who enjoy significantly lower land and labor costs, America will soon be out of the farming business altogether.

The rationale for this theory is that "advances in production technology created the need for global markets." Because food has an "absolute limit to the volume that can be consumed over time," demand is very inelastic and prices can decline drastically. This combination of expanded supply through technology and limited consumption created the current situation of falling prices and "commodities being produced in greater quantities than the global market can absorb" (Blank, 1998).

Tariff Abolitionists

This group argues that although price supports and direct subsidies do skew commodity prices downward, tariffs are the real price depressants. The perspective of many domestic crop production organizations is mirrored in the stance of the US House Agriculture Committee: "With foreign tariffs on agricultural goods more than five times higher than US tariffs, US farm policy helps level the playing field" (House Ag. Committee, 2002). The abolitionists view the tariffs of other nations as unfair competition; therefore, the US needs to support its farmers until such tariffs are eliminated. Because high tariffs are more damaging on less-developed nations than other forms of government interference, this group maintains that if you want to address low prices, tariffs should be the first issue to tackle (Tokarick, 2002).

Agrarians

Ironically, the Agrarians, the least represented group in global trade arenas, represent the viewpoint of the majority of small farmers throughout the world. They reject outright the idea that a global unrestricted marketplace will lead to net gains for the majority of the population. They favor a system of local economic self-determinism, where independent regions would negotiate a level at which they would partake in trade. This group encompasses such 20th century writers as J. Russell Smith, Liberty Hyde Bailey, Albert Howard, Wendell Berry, Wes Jackson, John Todd and Jane Jacobs.

Agrarians view the current low prices as the result of long-term development of technology, economies of scale and, most importantly, the steady eroding of economic boundaries at the local level. Although they may not be against measures on the larger economic scales that would increase the per-unit price of commodities, they believe the long-term solution will entail the emergence of community level self-imposed economic boundaries. Their solution involves a kind of secession: "not a secession of armed violence but a quiet secession by which people find the practical means and the strength of spirit to remove themselves from an economy that is exploiting them and destroying their homeland" (Berry, 2002).

Rent Seeking Theorists

Many economists have come to see political institutions as markets in themselves. They "recognize the non-separability of political and economic markets" (Rausser, 1982). From this perspective, agricultural policy can be seen as the interplay between demand (special interests groups such as the Farm Bureau, county agricultural agents and the USDA) and supply (elected officials). Elected officials "pursue policies until the marginal expected gain in votes equals the marginal expected loss in votes." The result: political economic seeking transfers (PESTS) are created by "powerful interest groups seeking to benefit their own welfare to the detriment of society as a whole" (Rausser, 1982).

Although rent seeking theorists believe there may be market failures in agriculture which need to be addressed by intervention, they see the current situation as a failure of government to adequately correct market failures. Low prices and overproduction are the result of inherent systematic processes by which certain farmers and corporations are receiving unjust income transfers. The solution can be achieved through "institutional innovations in the same fashion that biological and physical scientists produce technological innovations" (Rausser, 1982).

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APPENDIX C

The POLYSYS Modeling Framework

The Policy Analysis System (POLYSYS) is an agricultural sector modeling system designed to simulate the effects of changes in government policies and other exogenous variables. POLYSYS is used to evaluate the impacts of those changes on key variables of the agricultural sector including: supply, domestic demand and exports, stocks, market prices, government expenditures, net farm income, and other performance variables. Each POLYSYS analysis is anchored to a baseline situation, from which changes are introduced and simulated. In this analysis, POLYSYS is anchored to a ten-year baseline of key agriculture sector variables according to the July 2002 FAPRI baseline projections (FAPRI, 2002).

The POLYSYS model includes eight major crops—corn, grain sorghum, oats, barley, wheat, soybeans, cotton, and rice—and six major livestock categories—beef, hogs, sheep, broilers, turkeys, and eggs. POLYSYS models agricultural supply using Agricultural Statistics Districts (ASD), as defined by the National Agricultural Statistics Service, as the basic unit of analysis. There are 305 ASDs in the continental US thus, the crop supply side of the modeling system is the result of aggregating impacts in 305 ASD regions. Crop demand is modeled nationally and includes demands for feed, food and industrial domestic uses, as well as demand for exports. The livestock sector is included mainly to provide feedback for changes occurring in the crop sector, such as feed prices, and to provide impacts on changes in feed demand and farm income.

The planting or production decision is modeled at the ASD level (305 regions in the US) and assumes that producers allocate their acreage to a crop mix that maximizes their expected net returns. The national crop supply, then, is the summation of regional production resulting from the optimal allocation of acreage as described above. The demand for agricultural commodities includes domestic (feed, food, industrial) and export demand. The demand for each crop and use is driven by a set of short and long term price elasticities, and solves simultaneously with the supply module to estimate the equilibrium supply, demand (domestic, export) and prices for all crops. An inventory identity equation ensures that supply and demand are balanced. Finally, changes in crop and livestock markets interact with equations representing income and government program relationships to estimate the changes in farm income and government program variables.

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The CHAIRMAN. Thank you, Mr. Mitchell. Mr. Hayes.

STATEMENT OF EVAN HAYES, PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION; COMMISSIONER, IDAHO BARLEY COMMISSION; BARLEY AND WHEAT FARMER, AMERICAN FALLS, ID

Mr. HAYES. Mr. Chairman, Mr. Moran, Members of the Committee, thank you for the opportunity to appear before you today. I am Evan Hayes, President of the National Barley Growers Association. I farm in eastern Idaho, a little higher than most of you are used to seeing farming. I farm above 6,000 feet. We still have plenty of snow, thank goodness.

NBGA has serious concerns regarding the level of support barley receives relative to the other crops in the current farm program. We believe barley has lost significant competitiveness in its traditional growing region due in part to distortions in Federal farm program support levels, and the acreage trend certainly underscore our concerns. The NASS data 2006 Acreage Report showed barley seeded acreage at 3.5 million acres, a 10 percent decline from 2005 and the lowest planted acreage since estimates began in 1926. Last year, the NBGA asked the Senate Agriculture Committee to have FAPRI look at the root cause of our barley acreage decline, specifically if the farm bill might be contributing to it. According to the findings, marketing loan benefits have clearly favored traditional row crops over cereal grains. In the Northern Plains, average marketing loan benefits for the last 5 years were $4 for wheat, $8 for barley, $12 for soybeans and $21 for corn. At the national level, the combination of marketing loan benefits and market returns can help explain the increase in national row crop acreage since the early 1900s and the decline in small grain production.

Despite this disturbing trend, National Barley does support the structure of the current farm bill. However, we urge the Committee to adjust the support levels to make them more equitable among the program crops, using an objective method to determine the supports, mainly price history. Specifically, NBGA supports adjusting barley and other crop marketing loan levels upwards to 95 percent of a crop's 2002 to 2004 Olympic average prices. Barley's current marketing loan is at 75 percent of its recent history price is one of the lowest of any crops. If this change was adopted, barley's loan rate would be set at $2.35 per bushel and farmers would be less likely to have their planting decisions influenced by loan rates during periods of low crop prices.

NBGA supports adjusting barley and other crop target prices to 130 percent of the crop's 2000 to 2004 Olympic average prices. Once again, barley's target price today is at 91 percent of its price history during those years. It is one of the lowest program crops. Barley's target price would be set at $3.21 if these adjustments were made. NBGA is not advocating the crops with higher levels of support be decreased. NBGA supports adjusting barley's direct payment to 42¢ per bushel or 17 percent of its 2000–2004 Olympic average price. Again, the current 24¢ per bushel direct payment that barley receives is among the lowest percentage, at 10 percent, when compared to the price history.

NBGA supports the current level of payment limits and structure, including the continuation of the three-entity rule. NBGA supports the creation of a permanent disaster program, but does not support funding such a program from within the commodity title. NBGA understands the budgetary constraints facing the Committee as it begins to draft the 2007 Farm Bill, but urges the Committee to seriously consider these proposals designed to insert equality into program crop support levels.

I again want to thank the Committee for this opportunity to testify about NBGA priorities for the 2007 Farm Bill, and I am certainly willing to stand for any questions that you would like to address to me. Thank you.

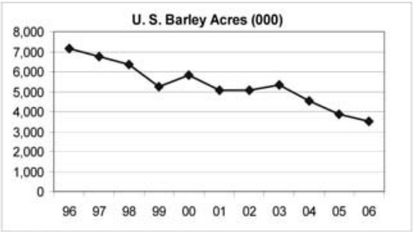
[The prepared statement of Mr. Hayes follows:]

PREPARED STATEMENT OF EVAN HAYES, PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION; COMMISSIONER, IDAHO BARLEY COMMISSION; BARLEY AND WHEAT FARMER, AMERICAN FALLS, ID

Mr. Chairman and Members of Committee, thank you for this opportunity to testify before you today regarding policies we believe Congress should consider when writing the next farm bill. I am President of the National Barley Growers Association (NBGA). I raise barley and wheat at about 6,000 elevation near Soda Springs, Idaho.

NBGA supports the structure of the current farm bill, but has serious concerns regarding the equity of program crop support levels, and in particular, the level of barley support relative to other program crops. NBGA believes that the U.S. barley industry has lost significant competitiveness in its traditional Northern Tier growing region due, in part, to distortions in Federal farm program supports. Acreage trends certainly underscore our concerns. The National Agricultural Statistics Service's June 30, 2006 Acreage Report repeatedly used the terms "lowest level," "new low," and "record lows" when reporting barley seeded acreage last year:

> *"Growers (barley) seeded 3.5 million acres for 2006, down 10 percent from the 3.88 million acres seeded a year ago, and the lowest since barley planted acreage estimates began in 1926. Acres for harvest, at 2.99 million . . . the lowest since records began in 1926. North Dakota growers planted 1.05 million acres, a new low since records began in 1926 . . . In Montana, planted area is down 100,000 acres from last year to the lowest level since 1953, while Idaho's 560,000 planted acres is the lowest since 1967. California, Colorado, Minnesota, and South Dakota . . . set new record lows for planted acreage, with records going back to the 1920s."*



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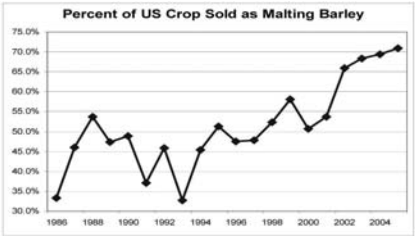
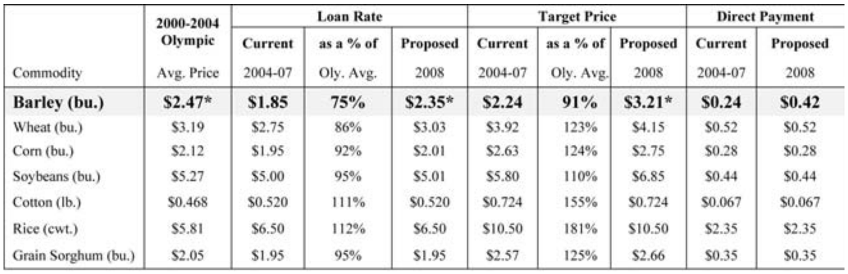


Source: NASS

The Senate Agriculture Committee sought on NBGA's behalf a FAPRI analysis on the affect the U.S. farm bill is having on barley acres and to identify changes that could be made in future policy that would treat barley more equitable relative to other program crops. According to FAPRI's findings, marketing loan benefits under the 2002 Farm Bill have clearly favored corn and soybeans over barley and wheat. In the Northern Plains, the average annual marketing loan benefit between 2000 and 2005 was $4 per acre for wheat, $8 for barley, $12 for soybeans and $21 for corn. At the national level, the combination of marketing loan benefits and market returns can help explain the increase in national soybean and corn acreage since the early 1990s and the decline in small grain production. The report can be found at *http://www.fapri.missouri.edu/outreach/publications/2006/FAPRI_UMC_Report_15_06.pdf.*

To mitigate the inequities of the current farm bill, NBGA supports a 2007 Farm Bill proposal that would set barley and other crop loan rates and target prices at a percentage of a crop's 2000–2004 Olympic average of prices. It is significant to note in the table below that barley's loan level at 75 percent is the lowest of any crop; and its target price at 91 percent is also among the lowest. Likewise, barley's current direct payment level at 10 percent is also in the lower range of all the program crops.



	2000-2004 Olympic	Loan Rate			Target Price			Direct Payment	
		Current	as a % of	Proposed	Current	as a % of	Proposed	Current	Proposed
Commodity	Avg. Price	2004-07	Oly. Avg.	2008	2004-07	Oly. Avg.	2008	2004-07	2008
Barley (bu.)	**$2.47***	**$1.85**	**75%**	**$2.35***	**$2.24**	**91%**	**$3.21***	**$0.24**	**$0.42**
Wheat (bu.)	$3.19	$2.75	86%	$3.03	$3.92	123%	$4.15	$0.52	$0.52
Corn (bu.)	$2.12	$1.95	92%	$2.01	$2.63	124%	$2.75	$0.28	$0.28
Soybeans (bu.)	$5.27	$5.00	95%	$5.01	$5.80	110%	$6.85	$0.44	$0.44
Cotton (lb.)	$0.468	$0.520	111%	$0.520	$0.724	155%	$0.724	$0.067	$0.067
Rice (cwt.)	$5.81	$6.50	112%	$6.50	$10.50	181%	$10.50	$2.35	$2.35
Grain Sorghum (bu.)	$2.05	$1.95	95%	$1.95	$2.57	125%	$2.66	$0.35	$0.35

* Barley's 2000-2004 Olympic Average of Prices is determined using "all barley" prices. The Posted County Price will continue to be determined using only "feed barley" prices; Counter-Cyclical payment calculations will be revised to using "all barley" prices.

NBGA believes the following changes to current law would provide much greater equity between program crops in the 2007 Farm Bill. Specifically, the proposal we support would adjust all loan rates to 95 percent of each crop's 2000–2004 Olympic average of prices, which would equal $2.35/bu for barley. Likewise, all target prices would be adjusted to130 percent of each crop's 2000–2004 Olympic average of prices, which would equal $3.21/bu per bushel. However, crops currently at or above the 95 and 130 percent support levels in this proposal would be left at current levels.

NBGA also supports increasing the barley direct payment to no less than $.42; which would be equal to 17 percent of the 2000–2004 Olympic average of prices.

NBGA also supports the current level of payment limits and structure, including the continuation of the three-entity rule.

NBGA supports the creation of a permanent disaster program, but does not support funding such a program from within the commodity title.

NBGA understands the budgetary constraints facing the Committee as it begins to draft the 2007 Farm Bill, but urges the Committee to seriously consider these proposals designed to insert equity into program crop support levels. I want to again thank the Committee for this opportunity to testify about NBGA priorities for the 2007 Farm Bill. If you have any questions, I will be happy to address them.

EVAN HAYES,
President, National Barley Growers Association.

The CHAIRMAN. Thank you, sir. Mr. Evans.

STATEMENT OF JAMES EVANS, CHAIRMAN, USA DRY PEA AND LENTIL COUNCIL; WHEAT, BARLEY, DRY PEAS, LENTILS, AND CHICKPEA FARMER, GENESEE, ID

Mr. EVANS. Thank you, Mr. Chairman and Members of the Subcommittee. My name is Jim Evans. I am a farmer of dry peas, lentils, chickpeas, wheat and barley near Genesee, Idaho. Today, I am testifying on behalf of the USA Dry Pea and Lentil Council, a national organization representing producers, processors, exporters of dry peas, lentils and chickpeas across the northern tier of the United States.

To begin with, we believe it is critical for the United States to provide a solid safety net to U.S. producers during periods of low prices and natural disaster. The 2007 commodity title should continue to encourage farmers to take advantage of market opportunities and reward them for being good environmental stewards. Right now commodity prices are up, and for the first time in years it appears that U.S. farmers might do a little bit better than breaking even. Hallelujah. I hope it never ends. But some day it will and when it does, our farm policy must protect farmers from continued subsidized competition, high tariffs, phytosanitary trade barriers and exchange rate manipulation.

As Congress writes a new farm bill, we ask that it include the following programs in the commodity title—pulse crops: dry peas, lentils and chickpeas, entered the farm program in 2002 with the introduction of the pulse marketing assistance loan program for dry peas and lentils and chickpeas. Our industry seeks to be included and be treated equally along with other program crops.

The Marketing Loan/LDP Program provides the best safety net for U.S. pulse growers facing dips in market prices. The table below shows the pulse loan rate set by law in the 2002 farm program and our request is to continue this program at the same levels in the 2007 Farm Bill. The 2002 Farm Bill created the Marketing Loan Program for small chickpeas. Our organization supports the creation of a marketing assistance loan program for large chickpeas in the 2007 Farm Bill. We ask that the loan rate be set at $18 a hundredweight for large chickpeas. The loan rate should be based on number three grade chickpeas that stay above a $^{20}/_{64}$ round sieve.

To reduce our dependence on foreign oil, we support a strong energy component in the 2007 Farm Bill. The most effective way to reduce our dependence on foreign oil is to encourage U.S. farmers to implement a sound energy conversation strategy. To encourage energy conservation, we propose the creation of a pulse energy conservation incentive payment; PECIP we call it. Dry peas, lentils and chickpeas are legumes and they do not require the use of nitrogen fertilizer in the production cycle. In fact, university research showed that dry peas, lentils, and chickpeas provide a 40 pound per acre nitrogen credit for the next crop in the rotation. In addition to conserving energy, pulse crops also fix nitrogen in the soil, which provides a significant offset to greenhouse gas emissions. The program would be delivered as a direct payment to those producers who plant energy-conserving crops like dry peas, lentils, and chickpeas. The payment would be based on multiplying the nitrogen credit saved by planting a pulse crop, 40 pounds an acre, times the current cost of nitrogen fertilizer, 38¢ a pound. The payment would be roughly $15 per acre for pulse crops with nitrogen prices. As Congress works on providing new incentives for the creation of biofuels, we ask that equal weight be given to providing incentives to produce pulse crops that conserve our energy resources.

Pulse crops are grown in a rotation with wheat, barely and minor oilseeds across the northern tier of the United States. Each crop in the rotation has a direct payment except for pulses. We support the creation of a direct payment for dry peas, lentils, and chickpeas equal to the direct payment received for wheat. The current direct payment for wheat is 52¢ per bushel. The table below establishes a pulse direct payment based on the current wheat direct payment program.

The counter-cyclical program provides an additional safety net to producers facing a downturn in the market. We support the creation of a pulse counter-cyclical program for dry peas, lentils and chickpeas equal to 130 percent of pulse loan rates established in the 2002 Farm Bill. The following table shows the pulse counter-cyclical price based on 130 percent of the pulse marketing assistance loan rates.

Producers need planting flexibility to respond to market signals. Over 90 percent of chickpeas produced in the United States are gown in Washington, Idaho, Montana, North Dakota, and South Dakota. Currently chickpeas are classified as a vegetable crop and are not eligible to be planted on program crops. The growers producing chickpeas in the northern tier primarily produce program crops that are eligible to be planted on program acres. The Council supports the inclusion of chickpeas, large and small, as an eligible crop to be planted on farm program base acres in the 2007 Farm Bill.

In summary, the Council believes the commodity title of the 2007 Farm Bill should continue the current pulse marketing assistance loan program with the addition of large chickpeas. We believe the safety net for pulses should be expanded and include pulse direct payment and a counter-cyclical payment. We ask Congress to consider our pulse energy conservation incentive payment program to encourage producers to conserve energy. I thank you for your time and I will answer any questions you ask.

[The prepared statement of Mr. Evans follows:]

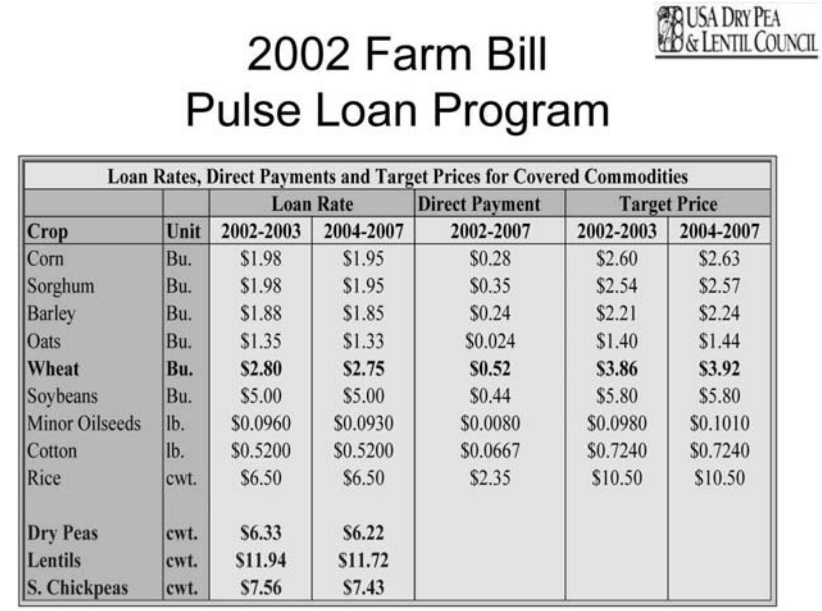
PREPARED STATEMENT OF JAMES EVANS, CHAIRMAN, USA DRY PEA AND LENTIL COUNCIL; WHEAT, BARLEY, DRY PEAS, LENTILS, AND CHICKPEA FARMER, GENESEE, ID

Introduction

Mr. Chairman and Members of the Subcommittee, my name is Jim Evans. I am a farmer of dry peas, lentils, chickpeas, wheat and barley near Genesee, Idaho. Today, I am testifying on behalf of the USA Dry Pea and Lentil Council, a national organization representing producers, processors and exporters of dry peas, lentils and chickpeas across the northern tier of the United States. Our membership includes farmers, processors and exporters in Washington, Idaho, Oregon, Montana, North and South Dakota, Minnesota, Nebraska, Wyoming, Colorado and Kansas. I am the current Chairman of the organization and in the audience today is the Vice Chairman of our Council, Greg Johnson. Greg owns and operates a large dry pea, lentil and chickpea processing facility in Minot, North Dakota.

The USA Dry Pea & Lentil Council would like to thank you for holding this hearing and providing our organization with the opportunity to share our ideas on the 2007 Farm Bill. To begin with, we believe it is critical for the United States to provide a solid safety net to our producers during periods of low prices or natural disaster. The 2007 Farm Bill should continue to encourage farmers to take advantage of market opportunities and reward them for being good environmental stewards. Right now commodity prices are up and for the first time in years it appears that U.S. agriculture might do a little better than breaking even. **Hallelujah! I hope it never ends.** But some day it will and when it does our farm policy must protect our producers from continued subsidized competition, high tariffs, phytosanitary barriers and exchange rate manipulation. As Congress writes a new farm bill we ask that it include the following programs in the commodity title:

2002 Farm Bill—Pulse crops (dry peas, lentils and chickpeas) entered the farm program family in 2002 with the introduction of the pulse marketing assistance loan program for dry peas, lentils and small chickpeas. Our industry seeks to be included and treated equally with other farm program commodities.



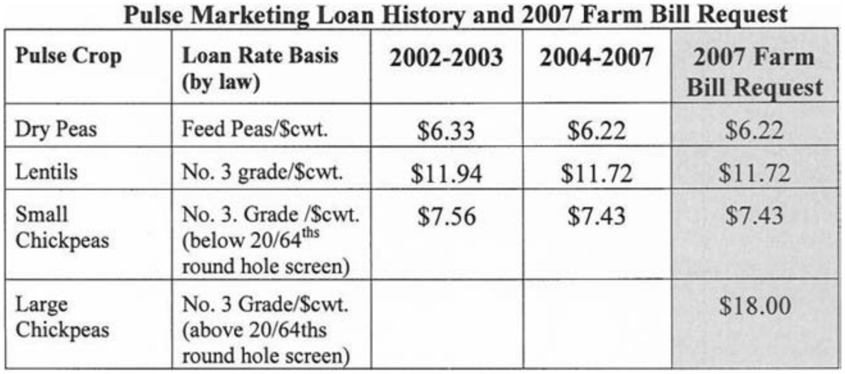
USA DRY PEA & LENTIL COUNCIL

2002 Farm Bill
Pulse Loan Program

Loan Rates, Direct Payments and Target Prices for Covered Commodities						
		Loan Rate		Direct Payment	Target Price	
Crop	Unit	2002-2003	2004-2007	2002-2007	2002-2003	2004-2007
Corn	Bu.	$1.98	$1.95	$0.28	$2.60	$2.63
Sorghum	Bu.	$1.98	$1.95	$0.35	$2.54	$2.57
Barley	Bu.	$1.88	$1.85	$0.24	$2.21	$2.24
Oats	Bu.	$1.35	$1.33	$0.024	$1.40	$1.44
Wheat	**Bu.**	**$2.80**	**$2.75**	**$0.52**	**$3.86**	**$3.92**
Soybeans	Bu.	$5.00	$5.00	$0.44	$5.80	$5.80
Minor Oilseeds	lb.	$0.0960	$0.0930	$0.0080	$0.0980	$0.1010
Cotton	lb.	$0.5200	$0.5200	$0.0667	$0.7240	$0.7240
Rice	cwt.	$6.50	$6.50	$2.35	$10.50	$10.50
Dry Peas	**cwt.**	**$6.33**	**$6.22**			
Lentils	**cwt.**	**$11.94**	**$11.72**			
S. Chickpeas	**cwt.**	**$7.56**	**$7.43**			

Title I—Commodity Programs

Marketing Loan Program/LDP—The nonrecourse marketing assistance loan and loan deficiency payment (LDP) program provides the best safety net for U.S. pulse farmers facing dips in market prices. The following table shows the pulse loan rates set by law in the 2002 farm program and our request to continue the program at the same levels in the 2007 Farm Bill:



Pulse Marketing Loan History and 2007 Farm Bill Request

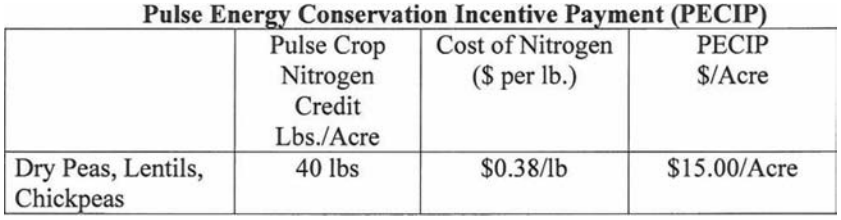
Pulse Crop	Loan Rate Basis (by law)	2002-2003	2004-2007	2007 Farm Bill Request
Dry Peas	Feed Peas/$cwt.	$6.33	$6.22	$6.22
Lentils	No. 3 grade/$cwt.	$11.94	$11.72	$11.72
Small Chickpeas	No. 3. Grade /$cwt. (below 20/64ths round hole screen)	$7.56	$7.43	$7.43
Large Chickpeas	No. 3 Grade/$cwt. (above 20/64ths round hole screen)			$18.00

Large Chickpeas—The USADPLC supports the creation of a marketing assistance loan program for large chickpeas. We ask that the loan rate be set at **$18.00/cwt. for large chickpeas.** The loan rate should be based on a No. three grade large chickpea that stays above a $^{20}/_{64}$ round hole sieve.

2. Pulse Energy Conservation Incentive Payment (PECIP)

To reduce our dependence on foreign oil, the USADPLC supports a strong energy component in the 2007 Farm Bill. The most effective way to reduce our dependence on foreign oil is to encourage U.S. farmers to implement a sound energy conservation strategy. The USADPLC supports the creation of a Pulse Energy Conservation Incentive Payment (PECIP).

Dry peas, lentils and chickpeas do not require the use of nitrogen fertilizer. In fact, university research has shown that the production of dry peas, lentils and chickpeas provides a 40 pound per acre nitrogen credit for the next crop in the rotation. The Pulse Energy Conservation Incentive Payment would multiply the nitrogen credit saved by planting a pulse crop (40 lbs/ac.) by the cost of nitrogen ($0.38/lb.). The payment would be $15.00 per acre for pulse crops with current nitrogen fertilizer prices.



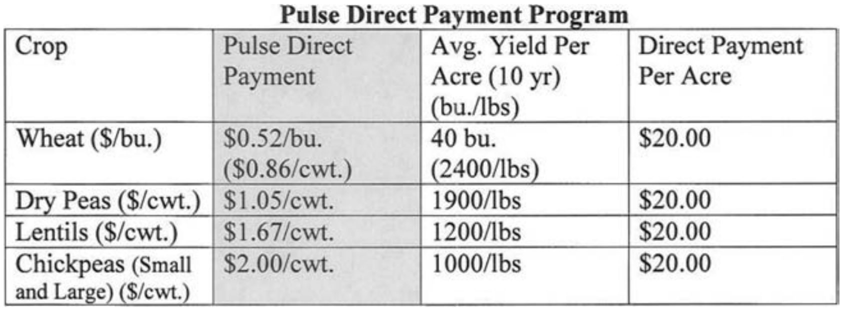
Pulse Energy Conservation Incentive Payment (PECIP)

	Pulse Crop Nitrogen Credit Lbs./Acre	Cost of Nitrogen ($ per lb.)	PECIP $/Acre
Dry Peas, Lentils, Chickpeas	40 lbs	$0.38/lb	$15.00/Acre

As Congress works on providing new incentives for the creation of biofuels, we ask that equal weight be given to providing incentives to produce pulse crops that conserve our nation's energy resources.

3. Pulse Direct Payment Program

The production of pulse crops (dry peas, lentils and chickpeas) is grown in rotation with wheat, barley and minor oilseeds across the northern tier of the United States. Each crop in the rotation has a direct payment except for pulse crops. The USADPLC supports the creation of a direct payment for pulse crops (dry peas, lentils and chickpeas) equal to the direct payment received for wheat. The current direct payment for wheat is $0.52 cents per bushel. The table below establishes a pulse direct payment based on the current wheat direct payment program.



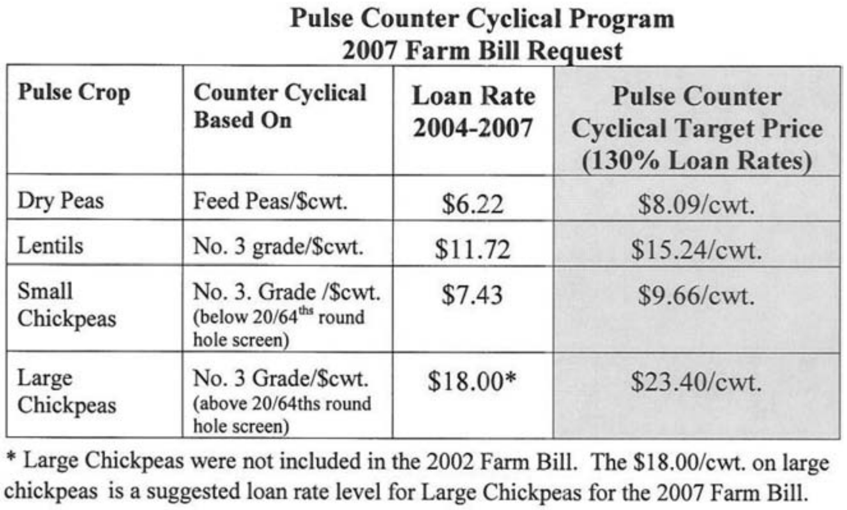
Pulse Direct Payment Program

Crop	Pulse Direct Payment	Avg. Yield Per Acre (10 yr) (bu./lbs)	Direct Payment Per Acre
Wheat ($/bu.)	$0.52/bu. ($0.86/cwt.)	40 bu. (2400/lbs)	$20.00
Dry Peas ($/cwt.)	$1.05/cwt.	1900/lbs	$20.00
Lentils ($/cwt.)	$1.67/cwt.	1200/lbs	$20.00
Chickpeas (Small and Large) ($/cwt.)	$2.00/cwt.	1000/lbs	$20.00

Pulse Base Acres—The USADPLC supports the creation of a USDA–FSA base for pulse crops (dry peas, lentils and chickpeas) in the 2007 Farm Bill in order to receive a direct payment. Producers should be allowed to sign up their vegetable base for the pulse direct payment program.

4. Pulse Counter-Cyclical Program

The counter-cyclical program provides an additional safety net to producers facing a downturn in the market. The USADPLC supports the creation of a pulse counter-cyclical program for dry peas, lentils and chickpeas equal to 130% of the pulse loan rates established in the 2002 Farm Bill. The following table shows the Pulse Counter-Cyclical Target Price based on 130% of the pulse marketing assistance loan rates.



Pulse Counter Cyclical Program
2007 Farm Bill Request

Pulse Crop	Counter Cyclical Based On	Loan Rate 2004-2007	Pulse Counter Cyclical Target Price (130% Loan Rates)
Dry Peas	Feed Peas/$cwt.	$6.22	$8.09/cwt.
Lentils	No. 3 grade/$cwt.	$11.72	$15.24/cwt.
Small Chickpeas	No. 3. Grade /$cwt. (below 20/64^{ths} round hole screen)	$7.43	$9.66/cwt.
Large Chickpeas	No. 3 Grade/$cwt. (above 20/64ths round hole screen)	$18.00*	$23.40/cwt.

* Large Chickpeas were not included in the 2002 Farm Bill. The $18.00/cwt. on large chickpeas is a suggested loan rate level for Large Chickpeas for the 2007 Farm Bill.

5. Remove Chickpeas from Fruit & Vegetable List

Producers need planting flexibility to respond to market signals. Over 90% of the chickpeas produced in the United States are grown in WA, ID, MT, ND, and SD. Currently chickpeas are classified as a vegetable crop and are not eligible to be planted on farm program base acres. The growers producing chickpeas in the northern tier primarily produce program crops that are eligible to be planted on farm program base acres. The USADPLC supports the inclusion of chickpeas (Small and Large) as an eligible crop to be planted on farm program base acres in the 2007 Farm Bill.

Title X—Crop Insurance

Our organization supports establishing Federal Crop Insurance programs for all dry peas, lentils, and chickpeas that manage risk at an affordable price. We recommend the following issues be addressed to improve crop insurance for pulse producers:

1. Pulse Long Term Revenue (LTR) Coverage—The 2002 Farm Bill required RMA to develop new "revenue" policies for non-program crops. Revenue coverage is not presently an option for producers of dry peas, lentils or chickpeas. Our organization has been working with RMA to create a "revenue" program for pulses since 2001. Our commodity was chosen to participate in an RMA initiative to develop a new revenue based insurance program for pulses. Unfortunately, we still do not have a revenue insurance program for dry peas or lentils. The 2007 Farm Bill needs to put additional pressure on RMA to create new programs for minor crops with firm deadlines.

2. APH Crop History—Pulse producers are required by RMA to have 4 years of production data to establish an Actual Production History (APH). Pulse crops are grown in a 3, 4 and sometimes 5 year crop rotation. It could take 12 to 20 years to establish an APH for a new grower. Last year RMA created a pilot program in North Dakota that would allow producers to generate an APH history in a shorter amount of time. Under the "Personal T Yield" pilot program a producer can generate production history each year for all units across his farm even if the unit did not produce pulses. This pilot program needs to be expanded to all growing regions raising pulses in the 2007 Farm Bill.

3. Optional Unit Structure Written Agreements—Background—In 2005–2006 the RMA rewrote the Optional Unit Structure Written Agreements to make them consistent throughout the country. There are many farms across the northern tier of the U.S., especially in the PNW, that do not fit the existing U.S. Rectangular Survey System that splits unit divisions based on sections or section equivalents. The rectangular survey system may work in flat regions of the country, but it fails miserably in the hills and valleys across the northern tier where producers farm outside section lines due to the varied topography. The RMA has decided to raise a "unit" under these agreements from 160 acres to 320 acres. The 320 acre unit sized is not fair to producers who face highly variable topography. Optional Unit

Structure Written Agreement size should be lowered from 320 acres to a 100 acre minimum for those areas of the country with varied topography.

In summary, the USA Dry Pea and Lentil Council believe the commodity title in the 2007 Farm Bill should continue the pulse marketing assistance loan program. We believe the safety net for pulses should be expanded to include a pulse direct payment and counter-cyclical program. We ask Congress to consider our Pulse Energy Conservation Incentive Payment program to encourage producers to conserve energy. Viable Federal Crop Insurance programs are critical to pulse producers and a new revenue program for pulse crops is needed.

I would like to thank the Committee for the opportunity to speak to you today, and I would be happy to answer any questions.

The CHAIRMAN. Thank you, sir. Mr. Shelor, for your final comments, please, sir.

STATEMENT OF GREGORY SHELOR, PRESIDENT, KANSAS GRAIN SORGHUM PRODUCERS ASSOCIATION; PAST PRESIDENT, NATIONAL SORGHUM PRODUCERS; FARMER, MINNEOLA, KS

Mr. SHELOR. Thank you. On behalf of the National Sorghum Producers, I would like to thank this Subcommittee for the opportunity to discuss the farm bill and its impact to the sorghum industry and my farm. My name is Greg Shelor and I farm in southwest Kansas. I raise dryland sorghum and wheat in a sorghum-wheat-fallow rotation, and irrigate sorghum, corn and soybeans. My no-till production practices enhance water conservation and prevent wind and water erosion. More importantly, I have recently bought stock in an ethanol plant near Dodge City, which will produce 110 million gallons of ethanol per year. I expect that half the feed stock used will come from sorghum, since it is an economical and viable alternative starch and yields the same amount of ethanol per bushel as corn. The ethanol industry is rapidly changing how sorghum is priced by equalizing sorghum and corn prices at a local level.

Sorghum producers are strong supporters of the 2002 Farm Bill because it significantly improved the equitable treatment given sorghum producers, related to other feed grains. Priorities for the 2007 Farm Bill are to equalize the sorghum loan rate set at county level with other feed grains; maintain guaranteed direct payments, because they are important in the semi-arid sorghum belt; preserve a safety net of LDPs and counter-cyclical payments for commodities, as we all understand the cyclical nature of agriculture.

While we are hoping the commodity prices don't drop to loan rate levels again soon, the reality of farm economy is that prices will drop, related to the county loan rate issue in 2006. The largest sorghum-producing States of Kansas and Texas, which produce 75 percent of the U.S. grain sorghum crop yield, only 33 of those 359 counties had loan rates equal to or above corn. In those 33 counties, the average loan rate was 3¢ per bushel over corn. In the other 326 counties, the average loan rate was 15¢ per bushel under corn. In an average loan rate situation, this difference cost the producer $10 per acre based on a 70 bushel yield. This makes a difference in which crop a producer chooses to plant in a loan rate environment. Fortunately, I can sell sorghum today for double my county loan rate, but last year this was a significant factor in deciding which crop I grew, even though we were dry and my cash prices for feed grains was within a couple of cents of equal.

As you write a new commodity title, maintaining the equitable direct payments, loan rates and counter-cyclical rates between all crops should be a high priority. The direct payment is very important to growers like me, as it is critical in the years we have a drought, which are not uncommon in the semi-arid sorghum belt. If sorghum had to rank payments today, direct payments would be the most important.

Most of the sorghum-growing region is in a semi-arid Great Plains region. Due to the extreme weather conditions of our area, our farmers are vulnerable to significant yield variations. Sorghum farmers support a well-funded and policed disaster provision that would supplement the limited safety net that crop insurance provides. Our first funding priority would be the current safety net, but if money was found, we would support a permanent disaster program.

If the Committee decides to address crop insurance, the price election mechanism for the sorghum industry is in desperate need of reform. The manner in which RMA sets price elections on sorghum is antiquated and is does not accurately reflect current market realities. USDA has an easier job of setting prices for commodities that have a futures market and more importantly, the future market is a forward-looking price mechanism. But for sorghum, and commodities like sorghum, they are not traded on the futures market, which USDA is forced to rely on past markets.

Once again, I appreciate the Committee's interest in sorghum and look forward to working with you and would be happy to answer any questions.

[The prepared statement of Mr. Shelor follows:]

PREPARED STATEMENT OF GREGORY SHELOR, PRESIDENT, KANSAS GRAIN SORGHUM PRODUCERS ASSOCIATION; PAST PRESIDENT, NATIONAL SORGHUM PRODUCERS; FARMER, MINNEOLA, KS

Introduction

On behalf of the National Sorghum Producers, I would like to thank the House Committee on Agriculture for the opportunity to discuss the farm bill and its impact on the sorghum industry and my farm.

My name is Greg Shelor, and I farm near Minneola, Kansas. I raise dryland sorghum, wheat, and I have cow-calf pairs on our grassland. My 1,700 acre cropping system is a wheat-sorghum-fallow rotation, which includes 250 acres of irrigated corn. My no-tillage practices enhance water conservation and prevent wind and water erosion. In addition, I have recently bought stock in the Dodge City, Kansas ethanol plant that will produce 110 million gallons of ethanol per year. I expect that half of the feedstock used will be sorghum.

My written testimony will follow the titles of the farm bill. While the commodity title remains the most significant title to most sorghum farmers and this Subcommittee, the energy title and energy legislation are drawing an increasing amount of attention.

Ethanol production is the fastest growing value-added market for the sorghum industry. Producers are working to attract ethanol plants to their areas because it can increase the local cash price. Sorghum is a good fit for ethanol production because one bushel of sorghum produces the same amount of ethanol as one bushel of corn. NSP endorses the Renewable Fuels Association's energy title recommendations.

I have historically marketed all of my sorghum production to a local hog farm for use in their feed ration. This past fall, all my sorghum went to an industrial starch processor which converts my sorghum into starch that is used to make wallboard.

NSP represents U.S. sorghum producers nationwide our major responsibilities are to increase the profitability of sorghum producers through market development, research, education, and legislative representation.

NSP is committed to work with the Committee and its staff as it works to reauthorize our nation's farm laws. The organization and industry are supportive of the current farm bill. However, we believe that Congress can clarify several program details so that USDA interpretation does not impact producers' ability to use sorghum in a profitable cropping system.

A Brief Description of Sorghum

I would like to give you a brief history of sorghum and outline for you some of the unique opportunities that we have in sorghum. Sorghum originated in Africa and continues to be a staple in the diet of many Africans. Benjamin Franklin first introduced sorghum to the United States in 1725. In the 1850s, the U.S. Government began introducing various forage varieties from China and Africa.

This versatile crop is used both in human food systems and, primarily in the United States, as an animal feed and energy crop. It is currently a non-GMO crop though NSP supports work on moving new technologies into the crop. Industrially, sorghum, like corn, is valued for its starch content. A prime example of this is the ethanol industry, which can use both corn and sorghum interchangeably in ethanol production. Its co-product, distiller's grain, is a valuable and widely accepted feed for both cattle feeders and dairies.

Industry Overview

The Great Plains states produce the largest volume of grain sorghum, but the crop is grown from California to North Carolina. According to the National Agricultural Statistics Service, last year sorghum was produced in many of the states that you represent. This includes North Carolina, Kansas, Georgia, Illinois, Texas, Oklahoma, South Dakota, Colorado, Nebraska, Missouri, Louisiana, Arkansas, Mississippi, and California. Over the past ten years, grain sorghum acreage has ranged from a high of 13.1 million acres in 1996 to a low of 6.5 million acres planted in 2006. Annual production from the last 10 years has ranged from 795 million bushels to 360 million bushels, with an approximate value of 1.2 billion dollars annually.

The creation of the Conservation Reserve Program in the 1985 Farm Bill had a significant impact on the sorghum industry. Today's sorghum acreage is ⅓ of what it was prior to the 1985 Farm Bill. It is a goal of the industry to increase producer's profitability and to take acres back closer to the pre-1985 Farm Bill level. NSP expects that returning acreage to that level will help ensure the infrastructure to supply the needs of the ethanol industry, livestock industry and export markets. The sorghum industry has submitted to USDA a national check off which will allow producers the opportunity to direct research funds towards their priorities. And, it will ensure research and development funding to continue to improve our crop. In addition, forage sorghum utilized as silage, hay and direct grazing represents approximately five million acres of production in addition to grain sorghum production. The USDA reported that in 2005, 311,000 acres of sorghum were harvested for silage, producing approximately 3.5 million tons of silage.

The U.S. is the world's chief exporter of grain sorghum, and the crop ranks fifth in size as a U.S. crop behind corn, soybeans, wheat, and cotton. Historically, roughly 45% of the crop is exported. This represents approximately 80% of world market share in sorghum exports. Of the 55% of the crop that is not exported, 27% goes into pork, poultry, and cattle feed; 24% goes into ethanol production; 3% goes into industrial use; and 1% goes into the food chain. In fact, sorghum's newest market is the exponentially growing ethanol industry. We have seen a 57 percent increase in that market over the last 2 years and expect it to grow even faster over the next 12 months as we have over one billion gallons of ethanol capacity coming on line in the sorghum growing areas in the next 12 months.

The growth of the ethanol industry in the sorghum belt has been phenomenal. For example, marketers tell us in western Kansas that the new plants under construction in my low basis area of our state will push the use of sorghum for ethanol production in our area to 50% of our 2007 grain sorghum production. Worldwide, approximately half of total production of grain sorghum is consumed directly as human food. In addition, the U.S. dominates world sorghum seed production with a billion dollar seed industry focused on 200,000 acres primarily in the Texas Panhandle.

Sorghum is a unique, drought tolerant crop that is a vital component in cropping rotations for many U.S. farmers.

Title I—Commodity Programs

Sorghum producers like me have been strong supporters of the 2002 Farm Bill because it significantly improves the equitable treatment given sorghum producers relative to other feed grains. However, many of the county loan rates of the organization's board of directors are still below the loan rates of other feed grains.

For example, in the two largest sorghum-producing states of Kansas and Texas, which produced 75% of the U.S. grain sorghum crop, only 33 of the 359 counties had loan rates equal to or above corn. In those 33 counties, the average sorghum loan rate was 3¢ per bushel over corn. In the other 326 counties, the average sorghum loan rate was 15¢ per bushel under corn. In an average loan rate situation, this difference costs a producer $10/acre (.15¢ × 70 bushels) and makes a difference in which crop he may chose to plant. Fortunately, I can sell sorghum today for double my county loan rate, but only last year this was a significant factor in my decision on which crop I grew even though my cash price for feed grains was within a couple of cents of equal.

When a new farm bill replaces our current farm legislation, maintaining equitable direct payments and loan rates between all crops are high priorities. The direct payment is very important to growers like me as it is critical in the years we have a drought, which are not uncommon in the semi-arid sorghum belt.

We also understand the cyclical nature of the farm economy, and it is a matter of time until prices drop. Therefore, the sorghum industry is asking for a safety net that is on par with other crops as a counter-cyclical type program. Most of the sorghum growing region is in the Great Plains region. Due to the extreme weather conditions of the area, our farms are vulnerable to significant yield variability. Sorghum farmers support a well funded and policed disaster provision that would supplement the limited safety net that crop insurance provides if funding is available.

Also, if another new policy option, revenue assurance, becomes part of serious policy debate, then it will be important for Members of the Agriculture Committee to understand that the devil is in the details of how the program functions. For example, drought can impact the baseline period for the semi-arid sorghum belt. Seventy percent of a zero yield is still zero revenue—no matter how high the price. This method of delivering farm benefits must be closely studied and well funded at a local level for our producers to support it.

Risk Management

If the Committee decides to address crop insurance, the price election mechanism for the sorghum industry is in desperate need of reform. The manner in which RMA sets price elections in sorghum is antiquated and it does not accurately reflect current market realities. Corn is used as a base comparison since both are feed grains, and in the CRC Commodity Exchange Endorsement, RMA uses a percentage of the corn price election to set the sorghum price election. For reference, the MPCI price election for corn in 2006 was 2.5% higher than sorghum. The CRC price election for corn was 11% higher than sorghum. In 2007, RMA set price elections for sorghum at 94.3% of corn for MPCI and 94.4% of corn for CRC policies. This was after repeated attempts by NSP to encourage RMA to set them equal or above corn. NASS' *Agricultural Prices* monthly publication has shown sorghum equal or above corn since May 2006. NASS valued sorghum 16% higher than corn in January 2007. WASDE also reported a $.10/bu higher price range for sorghum over corn in their last report. A crop insurance guarantee is a vital part of most farmers' cash flow plans and makes a difference in the crop that is planted on that farm. Sorghum producers deserve a level playing field to compete with other crops.

Title II—Conservation Policy

Sorghum producers would be extremely anxious about switching from our current commodity based farm programs and farm policy to a completely conservation-based payment policy if that new program would be operated similar to the current administration of the current programs. Our membership is frustrated with the operation of the Conservation Security Program in many states. Only a few farmers have even been allowed to apply for conservation programs under the CSP program because of the limited geographical areas approved, and only a few of the applicants have been accepted. Often, advice from local NRCS officials on one simple question has been the difference between a farmer receiving a significant contract or nothing at all. That uncertainty is causing a lot of angst toward the program.

Our members feel strongly that serious problems exist with the program. First, sorghum farmers consider sorghum a conservation crop because it uses less water, fertilizer and chemicals and works very well on marginal lands around the country. We believe that a "water-sipping" crop like sorghum should be a natural fit for the program.

Our producers would ask that the new Conservation Security Program operate in a manner that allows them more flexibility in the tiers of the program they can participate.

Conservation programs must be flexible enough to meet the diverse needs of different cropping systems and climatic conditions.

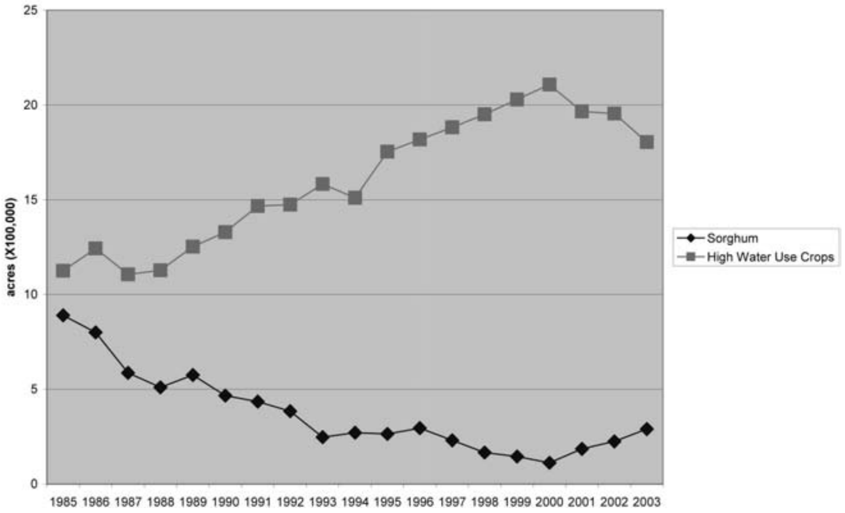
Water Use Is Increasing

NSP applauds the 2002 Committee for giving serious consideration to the future of water supplies in the semi-arid regions of the Plains, a region highly dependent upon sorghum, by creating the Ground and Surface Water Conservation Program as part of the Environmental Quality Incentive Programs (EQIP). However, more can and must be done to conserve water in the country's semi-arid agricultural producing region. NSP leadership believes that water quantity issues will continue to grow in importance and urgency as non-agricultural uses compete with agricultural uses in the sorghum belt.

Sorghum is known as a "water-sipping" crop. According to research conducted at the USDA Agricultural Research Service facility in Bushland, Texas, sorghum uses approximately ⅓ less water than either corn or soybeans, and 15% less water than wheat. It is a crop that is adapted to semi-arid agricultural regions; that is, regions that may receive less than 20 inches of rain a year or in higher rainfall areas that have soils with poor water holding capabilities. Corn and soybeans, on the other hand, are primarily grown in areas that receive 30–40 inches of rain a year. Because of its excellent drought tolerance and varied uses, sorghum is a viable option for producers in the Plains states.

Demand for water is increasing in the semi-arid regions of the U.S., especially for non-agricultural uses. NSP is concerned that the demand for water for both agriculture and non-agriculture use could create a climate of tension that is not productive for either group. Since 1985, five million acres of high water-use crops have replaced sorghum acres in the Plains states. A prime example of this is western Kansas, which has had serious drought for the last 7 years. Yet, irrigated acres for high water-use crops continue to increase. As a result, since 1985, western Kansas has lost 600,000 planted acres of irrigated sorghum. Sorghum producers in Kansas and in other sorghum states believe that this trend needs to be reversed. The following chart shows the decrease in sorghum acres and the increase in higher water-use crops (USDA, NASS 2003 data).

high water use crops compared to sorghum



Increasing water demand for agricultural and non-agricultural use is also a global concern. According to the National Water Research Institute (NWRI), 25 percent of the world's population will be facing a severe water shortage by 2025. However, the NRWI says that 50 percent of the increase in demand for water by 2025 can be met by increasing the effectiveness of irrigation and by growing more water-use efficient crops like sorghum. This projection shows that appropriate crop selection and conservation efforts can save water.

Policy Changes

We have some particular concerns that we would like to share with the Subcommittee in our efforts to strengthen Federal Government support for sorghum. Unfortunately, concentrating solely on improving irrigation technologies and increasing efficiencies does not necessarily translate into less water usage. NSP supports conservation programs that encourage planting of appropriate crops based on decisions that are environmentally sustainable and market driven. Overall, NSP believes that Congress and USDA need to emphasize water quantity, as part of water management, in both current and future conservation programs.

How Much Water Can Be Saved?

A Regional Water Plan prepared for the Texas Panhandle Water Planning Group in Amarillo, Texas, has found that the water savings over 50 years for 524,243 acres spread over 21 counties in the Texas Panhandle would amount to 7,360,000 acre-feet of water if irrigated corn acreage were converted to irrigated sorghum. On average, that's 147,200 acre-feet saved per year. An acre-foot of water equals 325,850 gallons, roughly enough to supply two, four-person homes with water for a year. Theoretically, this 50 year water savings would amount to 147,200 acre-feet per year, enough to supply water to 294,400 four-person homes in a year. For reference, the city of Austin, Texas, has 276,842 housing units and a population of 642,994, according to the U.S. Census Bureau.

On a broader geographic basis, the economic impact of converting higher water use acreage in the semi-arid regions to grain sorghum could be astounding. As you can see, encouraging the production of crops that are suited for a given area can save an enormous amount of water.

Current Water Situation

Currently, agriculture uses approximately 95% of the water drawn from the Ogallala Aquifer. Towns and cities within the region have aggressively educated citizens and in some cases implemented new laws that are forcing homeowners and businesses to conserve water. According to NRCS's National Water Management Center (NWMC), water use for irrigation has increased by 125% over the past fifty years. NWMC also found that some aquifers have been permanently damaged because the full recharge of depleted aquifers storage may not be possible where compaction has occurred. The sorghum belt remains in a long-term drought, and the water table continues to drop as ground water supplies dwindle. NSP encourages NWMC to proactively consider long-range planning that focuses on ground water, because agricultural and non-agricultural users are critically dependent on water.

Because of these concerns, NSP encourages the Subcommittee to promote conservation programs that save water. We have members that tell the organization that they find that they use more total water as they increase the efficiencies of their existing irrigation and add more new irrigation systems. NSP views this as contrary to the goals of a program like the Ground and Surface Water Conservation Program, and contrary to the best interests of producers. We believe that the best way to conserve water is to lower the amount of water used within an agricultural system, not to just improve irrigation delivery technologies.

Improving Current Programs

NSP believes that EQIP and other conservation programs should be playing an integral part of a system-wide approach that encourages and rewards lower water consumption. For example, the program could encourage producers to change from an irrigated high water use crop that on average uses 30 inches of irrigated water from a center-pivot watering 125 acres, to dryland sorghum. This would save 3,750 acre-inches of water a growing season. An incentive equal to the difference between irrigated land rental rates and dryland rental rates could entice farmers to make the conversion and help save water.

NSP members are concerned that concentrating solely on the use of efficient irrigation technologies may actually lead to an increase in overall water use. NSP leadership believes that the main priority of conservation programs should be to provide incentives to farmers to recharge ground water by lowering water use. With that in mind, another significant water saving conversion would be the production of less water intensive crops on irrigated land. Using our center-pivot irrigation example previously mentioned, switching from a high use water crop to a water sipping crop saves over 912 acre inches of water a growing season. NSP members believe that an incentive to compensate farmers for changing to a less water intensive crop would result in significant water conservation. NSP urges NRCS to work with the local offices and state committees to accurately determine the appropriate payment rate for different regions of the U.S.

Title IX—Energy

Sorghum can, and does, play an important role as a feedstock in the renewable fuels industry. The sorghum industry fully supports the President's call to greatly increase biofuel production. The sorghum industry believes that the Federal Government should provide significant research resources to the development of cutting-edge methodology for producing renewable biofuels. These technologies must be both economically competitive and feasible in order to meet the stated goal of reducing our "addiction" to fossil fuel by 2025.

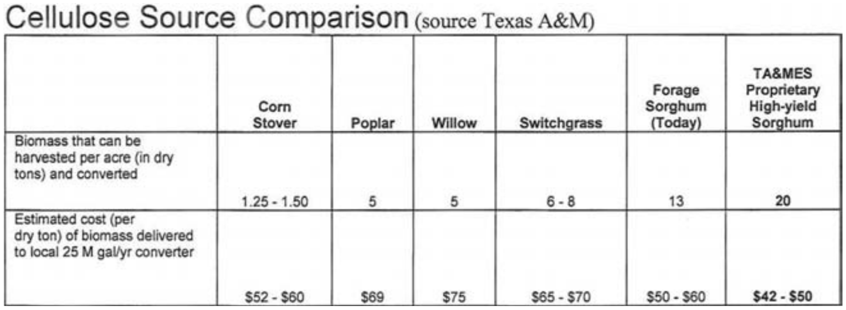
We believe that the starched-based ethanol industry will play an important role in the renewable fuels industry, even after the cellulosic or biomass technology is perfected.

Background on Sorghum in the Ethanol Industry

Currently, 2% of the domestically consumed grain sorghum crop is used by the ethanol industry to make ethanol, and the number is growing each month. That production provides a source of ethanol outside of the traditional Corn Belt and sorely needed rural development in the sorghum belt. Ethanol processing plants routinely mix corn and sorghum together in the production of ethanol. Expanding ethanol production outside of the traditional Corn Belt is a priority for the sorghum industry and we are working to ensure that the ethanol industry uses a local grown feedstock. Sorghum producers are working to expand their role in the renewable fuels industry.

Biofuels production in the United States has been fairly limited to the use of grain for production of ethanol. Research efforts within the United States have focused on improving efficiencies of the use of grains through optimization of enzyme technologies and feedstock improvements. The USDA and the DOE have been investigating the use of biomass for production of biofuels. That research should translate into any crop that produces high biomass yields.

Sorghum has a unique role in bioenergy since it can and does fit into all three schemes for production of biofuels: grain, sugar-based, and biomass feed stocks. Hybrid grain sorghum is routinely used as a grain feedstock in the U.S., sweet sorghum is used widely as a sugar feedstock in India and China, and the potential to produce high tonnage biomass from forage sorghum is well documented by the universities in the U.S.



Cellulose Source Comparison (source Texas A&M)

	Corn Stover	Poplar	Willow	Switchgrass	Forage Sorghum (Today)	TA&MES Proprietary High-yield Sorghum
Biomass that can be harvested per acre (in dry tons) and converted	1.25 - 1.50	5	5	6 - 8	13	**20**
Estimated cost (per dry ton) of biomass delivered to local 25 M gal/yr converter	$52 - $60	$69	$75	$65 - $70	$50 - $60	**$42 - $50**

Starch to Ethanol Production

In the U.S., almost all of the current ethanol production is based on starch conversion, using primarily corn and sorghum grain, to produce ethanol. To the ethanol production process, starch is starch; it does not matter if the starch comes from corn or sorghum. Both starch sources yield identical amounts of ethanol from a bushel, and the distiller's grain has almost identical nutritional value when it is fed to livestock with the only differences being that sorghum has slightly more protein and corn has slightly more fat.

Sweet Sorghum Conversion to Ethanol

Most Americans know of sweet sorghum as the type that is used to make syrup or molasses. In addition, it is also used worldwide in the production of ethanol. India and China are producing ethanol from sweet sorghum. DOE is currently supporting a sweet sorghum pilot study in Florida to explore the potential of sweet sorghums as a feedstock for ethanol production.

Under current systems, the sweet sorghum is harvested, and then the stems are crushed and juice extracted at a mill. Some harvesters, though not economically viable at this time, are being developed to extract the juice in one operation and leave the residue in the field to be gathered at a later time. Once the juice is extracted, it is fermented and ethanol is produced. This ethanol is then distilled and dehydrated using the same equipment that is being used in ethanol production from starch sources. NSP strongly supports research funding and loan guarantees to insure that sweet sorghum to ethanol can become another component of the U.S. ethanol industry.

Forage Sorghum's Role in Biomass

Forage sorghums can play a significant role in both cellulosic and lignocellulosic technologies that produce ethanol from biomass. Biomass production is based on utilizing the whole plant (or other organic waste) by breaking down most of the plant's major biological components to produce ethanol. In most cases, tons per acre of convertible biomass would drive the feedstock equation in the conversion to ethanol.

The Federal Government has been conducting research on the role of switchgrass in biomass production. Switchgrass and sorghum are both from the family Poaceae and probably diverged from each other sometime before the divergence between sorghum and corn. Switchgrass is a perennial plant that can spread by both seed and rhizomes. Though sorghum is thought to be primarily an annual plant, there are related species that are also rhizomatous and perennial. Both plants have open panicles and can be tall and very leafy. But just as importantly, forage sorghums have a significantly better water use efficiency. It is important not to limit biomass feedstocks to perennial plants.

DOE has indicated the need and desire to include sorghum in its analysis of ethanol feedstocks. Basic compositional data analysis as well as research regarding cellulosic conversion of various feedstocks is needed. Limiting factors should be studied in regard to biomass-to-ethanol output. For example, Brown midrib (BMR) sorghums may increase ethanol output. We believe that utilizing sweet sorghums in the next logical step to moving ethanol efficiency forward. China and India have well-established technology and the U.S. should be able to ramp up production to make the U.S. more energy independent. Biomass-to-ethanol production would then be the next step.

NSP supports the Renewable Fuels Association's farm bill energy title recommendations. Theses include refocusing the CCC Bioenergy Program to incentivize cellulosic and biomass feedstocks for ethanol production and energy production of ethanol plants; developing pilot and demonstration programs to familiarize growers with new cellulosic crops, including harvesting, transportation and storage issues; studying the concept of a "transitional assistance" program to assist farmers in the adoption of cellulosic crops; establishing a loan guarantee program for cellulosic energy projects, particularly in rural areas; revising the BioPreferred Program to facilitate a timely implementation of this market development program, allow feedstocks (intermediaries) to be designated as biobased products, and implement the labeling program; developing a workforce education program for biofuels technology at land grant universities and biofuels research and testing centers; increasing research for better utilization of distillers grains for use by the livestock industry; and industry-focused cellulosic ethanol research and development on industry, and a commercialization-focused structure for funding.

Conclusion

The Committee has a big challenge on your hands rewriting our Nation's farm laws and I expect that farm policy in the next 5 years will look significantly different than it does today because of efforts to cut the deficit while meeting needs for domestically-produced, renewable energy in the U.S. My industry looks forward to working with you during these efforts. Again, thank you for your interest in sorghum.

The CHAIRMAN. Thank you, sir. I yield myself 5 minutes. Mr. Shelor and Mr. Mitchell, for both of you, in reading your testimony, I don't think either of you mentioned the Administration's means test and proposal of the $200,000 adjusted gross income cap for farm programs, or other proposals that tend to lower payment limits for the three types of program payments. And my question to you is, what does your organization feel on both of these proposals in the context of both keeping farm payments exactly where they are—okay, as we do them now—or assuming that the Congress were to accept the recommendations that you have recommended and adopt that for the next farm bill?

Mr. MITCHELL. Well, as far as the means testing, the level that is set sets us up for a very dangerous situation, in that we would exclude many of our largest producers. Those producers would no longer have a reason to be in conservation compliance, therefore it may be a negative environmental move on the part of the Administration with the farm bill. As far as the three-entity rule——

The CHAIRMAN. So you are for it or against it?

Mr. MITCHELL. We would be against it——

The CHAIRMAN. Okay.

Mr. MITCHELL.—going there because of the exclusion of some of the larger producers from the environmental protections that are afforded in the farm bill. We do think there should be some limits as far as the three-entity rule. Until we can get a better farm bill, something similar to what we have proposed where, quite frankly, if there aren't payments, we don't have to worry about payment limitations. We probably need to retain that three-entity rule.

Mr. SHELOR. Our current policy now is to agree with what we have now and see no changes.

The CHAIRMAN. All right. Thank you. Mr. Mitchell, if you want marketing loan program rates to be equal to the full cost of production, can you show us any ideas numerically what the loan rates would be for major commodities? By that I mean, does full cost mean variable cost or are you including fixed cost in that as well? We understand that you have a variable cost and then you have a fixed cost, and would these rates be exactly the same for everyone or would there be a variation for different parts of the country, because you can obviously expect different places in the country where you have irrigation, otherwise it would be different.

Mr. MITCHELL. Well, what we are talking about is a nonrecourse loan as opposed to a marketing loan and we are talking about the full cost of production, which has actually been proposed as the target price by a couple of other organizations here today. In fact, finding that full cost of production can be a bit elusive, it depends on who you look at and I would recommend this Committee consider a hearing and bring in several of the land-grant universities to determine how they are calculating that full cost of production. You second question was?

The CHAIRMAN. Were you recommending that it be the same for everyone or would it be regional?

Mr. MITCHELL. Well, no. Of course, that would be that we would still need to go back to that adjustment so that the weighted average would come back to that national loan rate.

The CHAIRMAN. Okay, thank you. Now for my final question. Mr. Hayes and Mr. Evans, let me ask the question a little differently for the farmers that you represent, as it relates to payment limits and others. Would that have an impact on the number of farmers that you think would be engaged in the conservation programs, taking advantage—under the proposed $200,000 limit?

Mr. HAYES. You know, I don't know how to respond to that as far as conservation is concerned. I can tell you that we are opposed to the——

The CHAIRMAN. Okay. Okay, that will do it.

Mr. EVANS. I would say the same thing, that the Council is opposed to the payment limitation.

The CHAIRMAN. Okay, thank you, sir. I now yield to the gentleman from Kansas, Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you very much. Mr. Mitchell, thank you for your opening comments about FSA office closures. We are undergoing the same thing that many other states are and I absolutely think that. In fact, earlier this week, I asked Mr. Peterson to have a hearing in the full Agriculture Committee on the issue of the failures, current failures, of our IT technical and computer systems and my guess is that the potential there for catastrophic problems for farmers across the country is just huge, as Mr. Etheridge says, but perhaps around the corner, and I find it interesting that we are disconcerting. I find it discouraging that we are focusing such a tremendous effort on trying to figure out how to eliminate offices across Kansas and across the country as compared to focusing on what I think is a much larger problem that USDA faces. And I visited with Ms. Herseth about her bill and we will take a look at that. But thank you for raising that topic and it is one that we really need to force USDA to address.

Mr. Shelor, I asked the panel, the first panel, earlier about, can you segregate and segment the crop commodities and treat them differently as far as loan rates and LDP, counter-cyclical and direct payments? Each commodity has a slightly different version of what they are looking for in the next farm bill and I didn't get an answer. I am going to follow up and ask them to answer my question in writing. But any reaction to that? Is this an opportunity for us to treat commodities differently or the way people farm? Would that be a mistake?

Mr. SHELOR. Well, it probably could be a mistake, but you know, as long as they are equitable, so that a producer isn't out there trying to make decisions on the farm bill, what is best for him, and it is market driven. You know, I think it would be best for producers.

Mr. MORAN. In a state like ours, in which there is a lot of diversity and program crops, a farmer has a significant number of options, depending upon price, the farm bill and weather conditions, to make decisions about what crop to raise. What do you see going on today in regard to decisions being made based upon provisions of the farm bill, the commodity title?

Mr. SHELOR. Well, it is still back there even though we have higher cash prices and we are looking forward; and hopefully we don't utilize the loan rates and LDPs and stuff. But as we all know, the reality is that someday we will be using them again and like has been mentioned before, when you go to the banker, you have done a cash flow and stuff. You have to have that minimum price in there and it is really important to know that that safety net is there between different crops.

Mr. MORAN. You and your farming operation, can you give me examples of where decisions are made based upon the farm bill as compared to what would make more sense from a marketing or weather point of view?

Mr. SHELOR. Well, if you just look at the safety net, if you have a crop that has lower prices and you are not guaranteed as good a return, you are not going to be inclined to produce that crop.

Mr. MORAN. Mr. Shelor, I want to give you the opportunity. I was trying to give you the opportunity to point out how, in sorghum, decisions are being made based upon that imbalance that you described, and I assume you could tell us that is going on in your farming operation or your neighbors or across the country, that people are not growing grain sorghum because of current provisions of the 2002 Farm Bill. Is that true?

Mr. SHELOR. Well, that is correct, because of the lower loan rates and then even the price election on crop insurance has the same problem, too. So that affects——

Mr. MORAN. So in addition to the program payments, crop insurance discourages the growing of grain sorghum?

Mr. SHELOR. Extremely, yes.

Mr. MORAN. Because?

Mr. SHELOR. Because it is a lower price election, because of the way they figure the price going over the past history and not looking forward to future prices.

Mr. MORAN. And my assumption is that your bankers at least attempt to make many decisions for you and other farmers as to what crops are grown?

Mr. SHELOR. Well, they don't necessarily do that, but they do have a smile on their face if you can show them a return.

Mr. MORAN. I can understand that. Mr. Evans, let me address you. These are crops I am less familiar with and I am interested in knowing what we did in the 2002 Farm Bill, which I thought and you indicate in your testimony that pulse crops entered the farm program family in 2002, but I was uncertain, in listening to your testimony, as to what is still missing in 2007. What did we fail to do that would be beneficial to your segment of agriculture?

Mr. EVANS. Well, as I said in my testimony, we just want to be treated equally with all other commodity crops and wheat has a direct payment. It has a counter-cyclical payment. I realize that they didn't get to use them and it works that way. But I mean, we just want to be like everybody else.

Mr. MORAN. And again, give me the instances in which you are not like everybody else. You don't have a direct payment?

Mr. EVANS. Yes.

Mr. MORAN. What else?

Mr. EVANS. What is that?

Mr. MORAN. What else?

Mr. EVANS. Oh, and a counter-cyclical payment. I mean, I don't know whether we get it. I mean, I hope the prices stay up and we don't need it.

Mr. MORAN. But you don't have the opportunity for a counter-cyclical?

Mr. EVANS. We don't have the opportunity.

Mr. MORAN. And so when you entered the farm family, I have to choose my words carefully, you are not a full-fledged member of the family?

Mr. EVANS. No, we got to sit at the big table, but we haven't got fed yet.

Mr. MORAN. And then the restrictions. That is a good description. You are at the TV tray. The prohibition on program acres.

Mr. EVANS. Yes?

Mr. MORAN. You are prohibited from growing your crops on program acres?

Mr. EVANS. Just chickpeas.

Mr. MORAN. Just chickpeas.

Mr. EVANS. In the 1996 Freedom to Farm Act, our organization put the wording into the bill to have an exclusion for peas and lentils. We weren't able to get it at that time for chickpeas.

Mr. MORAN. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. The gentleman from Georgia for 5 minutes.

Mr. MARSHALL. Thank you, Mr. Chairman and Mr. Moran. I will be pleased to let Mr. Pomeroy know that you are now occupying his role in the Committee and running over your 5 minute block of time.

Mr. MORAN. In the old days, I had the ability to do that.

Mr. MARSHALL. Chairman Peterson is very high on sweet sorghum as an energy source and thinks that, in fact, things are going to look up pretty quickly where sorghum is concerned. He even thinks we will be growing sorghum in Georgia. I am not really familiar enough with the science and the opportunity there, but you know, maybe you will be representing a lot more acreage here shortly.

Mr. Mitchell, I principally have questions for you. It is the same question that I asked. I guess you corn guys are the troublemakers in the group here. I asked Mr. McCauley and you heard me ask the question. The question is, you have a proposal that is a little different than what is being advocated by most of the other commodities and this has been around now for a couple of years, 2 or 3 years. It is based on the University of Tennessee work. And so there has been a debate and that debate probably in your mind has crystallized into a few very narrow points, major points, differences of opinion here, and could you quickly summarize that for me? What do others say is the real weakness in your proposal and what is your response to that?

Mr. MITCHELL. Well, I will do my best. The three legs of what we are talking about is to go back to a support price as opposed to a subsidy, and I know a lot of times I have to explain this to urban audiences as well. Many times the analogy we use is the difference between a support and a subsidy is the difference between who pays the money; does the government pay the money or does the user pay the money? In this case, we are looking also at the difference between, say, minimum wage and food stamps. And you know, this has been debated recently by this body, about the minimum wage. You don't have to be a rocket scientist to figure out that you can raise the minimum wage and help reduce the cost of food stamps. We are talking about raising the minimum wage for farmers to establish a floor price so that we don't have to deal with the subsidies.

Mr. MARSHALL. I understand that. Have you done an analysis and concluded that this is just politically not going to happen and so that is your position, but you are really not going to push it because you don't think it will happen?

Mr. MITCHELL. No, not at all. I think, given the budget constraints that you are going to have to deal with this year, this is probably your best option.

Mr. MARSHALL. The other objections to your proposal?

Mr. MITCHELL. Well, I think some of the objections that have been proven false before is that we have priced ourselves out of the market by using such a program. Well, to be quite honest, we have dropped the price of most of our commodities fairly dramatically over the last 25 or 30 years. In fact, adjusted for inflation, corn prices, until this recent rebound, had been reduced by 80 percent over the last 25 years, the time period that we saw grocery prices increase by 300 percent, but our exports still remain static. In fact, they are worse than static. We continue to export just above or just below two billion bushels, but that used to be two billion bushels of a seven or eight billion bushel crop. Now it is two billion bushels of an 11 billion bushel crop. So as a percentage of our crop, we are exporting much less, even with these lower prices. So I think we have proven that the myth that the recourse loan prices us out of the marketplace has been disproven.

Mr. MARSHALL. You would obtain these prices not by controlling supply, and you would obtain those prices by going ahead and saying this is what people are going to have to pay for the different commodities?

Mr. MITCHELL. For the most part. I mean, this was the cornerstone of the farm programs that started in the 1930s, and without going through all of that history, but I will say that we do need to determine a way of managing overproduction. One of those ways we see, I don't think we will ever go back to the ARPs of the past, the acreage reduction programs, but if we can give farmers incentives to plant dedicated energy crops in place of some of these crops we have been overproducing, I think it would work over the next 50 years similar to what soybeans have done for us over the past 50.

Mr. MARSHALL. If I could interrupt. I am going to run out of time here. I have just an observation. I do think things look up in ag because of the fact that we are going to be using a lot of acreage for energy production, assuming we continue heading in the direction we are heading right now. One of the things that worries me, though, is if you poll this, public support for, at least in the Southeast, as far as I can determine, public support for ag, for farmers, for family farmers, just isn't there and it would be very nice if there were some way we could come up with a farm program that increased public support. As it diminishes, it becomes politically more difficult to do some of the things that we need to do. I see my time has expired.

The CHAIRMAN. I thank the gentleman. Let me thank each of you for your testimony and your for your time this morning. You have been very helpful and certainly will be helpful to us as we struggle through the challenge we face of getting a new farm bill to our farmers, that is really for America, because not only are we keeping people on the land, more importantly, we are feeding people in this country and a lot of folks around the world. With that, let me thank you and turn to the gentleman from Kansas for any closing comments he might have.

Mr. MORAN. Mr. Chairman, thank you very much and I appreciate the fact that you have called these witnesses to give us the testimony that we have heard today. It is very useful and I appreciate their presence in Washington, D.C., to help us in this regard.

I especially appreciate Mr. Shelor, a constituent of mine, for making the trip from Kansas to Washington, D.C. I am grateful that we had such good testimony and appreciate the role that grain sorghum plays in our state. We are the number one grain sorghum producing state in the country and we often talk about corn as the ethanol provider, the input. Mr. Shelor raises a product that can be very helpful to our country in meeting its energy needs. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. And I might say that a lot of sorghum we grow in a lot of places, we are going to use that as a feedstock for energy. So let me thank you. But before we adjourn, under the rules of the Committee, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from witnesses to any question posed by a Member of the panel. This hearing of the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 12:20 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED QUESTIONS

Responses from John E. Pucheu, Jr., Chairman, National Cotton Council of America; Partner, Pucheu Brothers Ranch, Tranquility, CA

Questions Submitted By Hon. Bob Etheridge, a Representative in Congress from North Carolina

Question 1. You call for competitiveness assistance to be provided to U.S. mills for every pound of cotton they consume and believe such a program would have very low costs. Can such a program be created that is compliant with our WTO obligations, and exactly how low do you envision these costs being?

Answer. The National Cotton Council and the National Council of Textile Organizations support inclusion of a provision in the new farm law that would provide a payment of 4¢/lb. on every pound of raw upland cotton fiber spun into yarn in U.S. based yarn manufacturing plants. By providing the benefit on all cotton consumed, the provision would not violate the national treatment provision of the WTO. The proposal is based on the average value of the payments made under the cotton competitiveness provision prior to its termination, effective August 1, 2006. The U.S. textile industry, which is a critically important market for U.S. farmers, continues to struggle for survival in the face of increasing imports, especially from China where mills receive significant subsidies in the form of no-cost loans, currency undervaluation, subsidized utility, land and shipping costs, export tax rebates and other direct and indirect subsidies. Unfortunately, the proposed fiber competitiveness program will not restore lost production capacity but mills will reinvest the benefits, preserving a market for U.S. cotton and U.S. jobs. Given the continued decline in cotton consumption by U.S. based mills, the provision can be expected to have relatively low cost over the life of a new farm bill and should be reviewed when the new law expires.

Question 2. I note you support continuation of the extra-long staple cotton program. Please explain the provisions of the program and why having a separate program for ELS in important to California and to the rest of the cotton producing states. Also, am I correct that the ELS program was not referenced in the case Brazil filed with the WTO?

Answer. The extra-long staple cotton program has provided an effective, low-cost safety net for U.S. producers. The provisions of the ELS program, which include a nonrecourse loan and competitiveness provision, were not part of the WTO case. While ELS cotton can and has historically been produced in West Texas, New Mexico, Arizona and California, the production is currently concentrated in California's San Joaquin Valley. ELS producers have successfully initiated a successful self-help promotion program and have established markets for their premium cotton, both domestically and internationally. The ELS program combined with cropping flexibility provisions allows producers to respond to market signals. In the absence of an effective ELS program and cropping flexibility provisions, farmers in the irrigated West would not have the option of planting ELS and would be forced to plant upland regardless of market signals.

Question 3. You have express concern about the limitations on program benefits, eligibility requirements and the Administration's proposed modifications to the existing AGI test. How do these proposals impact California and other highly productive irrigated areas?

Answer. Limitations on program benefits have a disproportionate impact on producers of high value crops and particularly producers in irrigated areas with high productivity per acre. Since current and proposed limitations are expressed in dollars, the limits cover significantly fewer acres for a highly productive irrigated operator than a dry land operation. For example, the $75,000 limitation on loan deficiency payments at today's cotton price of 43¢/lb. would cover about 575 acres in California compared to 1,070 acres in Texas. The limits cover even more acreage in the Midwest causing the impacts to fall disproportionately on irrigated operators producing high value crops including cotton, rice and peanuts. Since the limitation is applied cumulatively for all crops, if the cotton producer also has rice or other program crops, the limit would restrict benefits to even fewer acres. The limits can impact financing and marketing decisions in a way that undermines the cropping flexibility provisions. For example, if limitations or eligibility were further restricted, producers would have to shift to specialty crops—many of which have very fragile markets which would be severely damaged by over-production. The Administration's proposal to deny all benefits to individuals with adjusted gross incomes that exceed $200,000 would be particularly penal in the West where high value specialty crops can generate high income on relatively small production in years when favorable market conditions exist.

Question 4. Can or should each commodity have its own program that is dissimilar in structure from the others or should we maintain a uniform structure for the safety net for all program crops.

Answer. Since most operators can chose to produce various crops, it is important for the structure of farm programs to be uniform and for there to be a balance between programs so producers can respond to market signals rather than program benefits. However, because markets are different, it is necessary for programs to be tailored to individual crops. For example, the cotton marketing loan is based on an adjusted world price that is based on actual market price data available to USDA. The industry supports this method of calculating the weekly world price because reliable data are readily available. The marketing loan for grains and oilseeds is based on county posted prices, which are not relevant for cotton.

Responses from Ken McCauley, President, National Corn Growers Association; Corn and Soybean Farmer, White Cloud, KS

Questions Submitted By Hon. Bob Etheridge, a Representative in Congress from North Carolina

Question 1. If the only way we could implement an RCCP would be for corn only, and all the other crops would have their programs remain the same, would that be acceptable or are there disadvantages to corn if you go it alone on this?

Answer. NCGA's analysis indicates our proposed revenue based counter-cyclical program, integrated with the Federal crop insurance program, will provide much greater income protection for corn, soybeans, wheat and sorghum compared to the current farm support programs. Although we believe U.S. agriculture would be much better served by a shift to a revenue based safety net, there is no reason why corn could not go it alone except for the fact that some budget offsets are lost from the other commodity support programs remaining the same. Moreover, we do not anticipate any problems with planting decisions based on the different structures between the existing price base programs and our proposed. Revenue-based safety net.

Question 2. Does the current marketing loan program have to become a recourse loan in order for the RCCP to work or can the RCCP work with the current program?

Answer. NCGA believes the RCCP, particularly with a higher price floor than the current loan rate, eliminates the need for a nonrecourse loan. Should Congress decide to keep the nonrecourse loan program, then it would be very important for the harvest price that determines the RCCP Actual County Revenue to not fall below the loan rate. However, NCGA has yet to evaluate the projected costs of the National Farm Security Act proposal with a nonrecourse loan.

Response from Peter D. "Dan" Gertson, Jr., Chairman, U.S. Rice Producers Association; Rice Farmer, Lissie, TX; on Behalf of USA Rice Federation

Question Submitted By Hon. Bob Etheridge, a Representative in Congress from North Carolina

Question. Can or should each commodity have its own program that is dissimilar in structure from the others or should we maintain a uniform structure for the safety net for all program crops?

Answer. First, with regard to program crops below we are referring to those "covered commodities" under title I of the farm bill. We believe the overall general structure of the safety net should remain the same for each program crop, however it is important to note that currently there are distinct differences in the programs for some crops and in how the programs operate. For instance, the nonrecourse marketing loan program for rice and cotton uses a "world price" for determining the loan repayment rate or loan deficiency payment, while the marketing loan program for most other crops uses a domestic posted county price for this determination. While we believe it is important for the overall structure of the programs to be similar, it is also important that such key distinctions are recognized and continue to remain in place given the the different market dynamics for different crops. We are very concerned that, should programs differ too substantially from one crop to another, the differences could interfere with production decisions and effectively impede planting flexibility, especially if such changes work to the detriment of particular commodities or growing regions. A program for a particular crop should provide a meaningful safety net for all regions of the country and all producers who select to grow that crop.

Response from Richard Ostlie, President, American Soybean Association, Northwood, ND

Question Submitted By Jerry Moran, a Representative in Congress from Kansas

Question. Can or should each commodity have its own program that is dissimilar in structure from the others or should we maintain a uniform structure for the safety net for all program crops?

Answer. ASA and other oilseed organizations strongly support maintaining a uniform structure for all program crops. We supported the decision to establish direct and counter-cyclical payment programs for oilseeds in the 2002 Farm Bill, although we objected at the time to the levels of oilseed supports relative to other crops. We continue to support maintaining the current structure, while adjusting support levels to eliminate planting distortions and to provide an adequate safety net to all producers for all crops.

The marketing loan program can seriously distort planting decisions if prices for crops that compete for acres are expected to be near or below loan levels and the loan rates themselves do not reflect the relative market prices of their commodities.

Inequitable target prices can also indirectly distort planting decisions. Inequitable target prices make it less likely for a low target price crop to be planted on a high target price crop's base acres because the expected "market returns" of the low target price crop must be higher than *both* the "target price returns" and "market returns" of the high target price crop. And since farming is inherently risky, producers and lenders will seek to reduce risk wherever they can, even to the point of continuing to plant a crop with a higher effective target price on that crop's base acres when a low target price crop's market price sends signals to the contrary. Also, even though base acre updates are said to be unlikely in new farm legislation, producers will continue to take that possibility into account and factor in inequitable target prices when making planting decisions.

Direct payments are income transfers, and have little impact on planting decisions.

As indicated in my testimony, ASA is proposing to adjust target prices and marketing loan rates to ensure producers of all crops an adequate safety net against low prices, and to reduce the planting distortions caused by current inequitable loan levels and target prices. This proposal is intended to make the current structure of the 2002 Farm Bill work more successfully. Providing different programs for different commodities would make it more difficult to provide equitable support, and could have serious unintended consequences for production of the various program crops.

Response from John C. Thaemert, President, National Association of Wheat Growers; Owner/Operator, JT Farms, Inc., Sylvan Grove, KS

Questions Submitted By Hon. Bob Etheridge, a Representative in Congress from North Carolina

Question 1. You mention in your testimony your organization's support for creating a separate market classification for Hard White Wheat. Can you elaborate on that; what do you envision and why is it necessary?

Answer. Hard White Wheat is a new wheat class needed in the U.S. export market basket to compete with U.S. competitors in world markets that are cutting into U.S. export market share. U.S. domestic industry also uses and needs Hard White Wheat to optimize consumer interest in healthy, 100% whole wheat products. Currently, under the marketing loan program Hard White Wheat does not have its own classification and instead continues to mimic Hard Red Winter. As market share begins to increase and the industry strives to achieve a critical mass, we believe it is necessary for Hard White Wheat to be able to stand on its own, which means treating it as a separate class, similar to Soft White Wheat, Hard Red Spring, Hard Red Winter etc.

Question 2. Is there a need to continue the White Wheat Incentive Program that was funded in the 2002 Farm Bill?

Answer. We believe there is a need for creating a new Hard White Wheat Development program to incorporate all segments of the industry. Hard White Wheat has continued, since enactment of the 2002 Farm Bill, to gain some market share, and plantings in some areas have increased. However, lack of available infrastructure, lack of knowledge and lack of disease resistance have hurt the industry. While we believe there is a need for a Hard White Wheat Development program to help gain critical mass, we believe a new program should be developed to ensure that HW can be successfully marketing throughout the entire wheat supply chain; addressing the needs of researchers, seed producers, grain producers, and marketers. The U.S. Wheat Associates Hard White Wheat Committee has developed a draft concept paper (attached) that explains the needs of the industry and their visions for a new incentive program in the next farm bill.

Question Submitted By Jerry Moran, a Representative in Congress From Kansas

Question. Can or should each commodity have its own program that is dissimilar in structure from the others or should we maintain a uniform structure for the safety net for all program crops.

Answer. We believe that the agronomics of each commodity are different and that in many cases, different growers may have different needs in a safety net. Therefore there should not be a "one-size" fit all approach to farm policy. Wheat growers strongly believe in the current structure of the 2002 Farm Bill, but urge Congress to put a greater emphasis on the direct payment for wheat growers, and adjust target prices to reflect historic cost of production. We understand that other commodity growers have different needs and ideas about their safety net, and believe, when working within the structure of the 2002 bill, adjustments should be made to programs based on each commodities needs.

ATTACHMENT

U.S. Wheat Associates Hard White Wheat Committee

(Draft) Concept Paper

Hard White Wheat Development Program

January 21, 2007

THESE ARE THE GOALS OF THE CONCEPT

- Establish HW wheat as a viable U.S. market class.
- HW is widely used in U.S. domestic and export markets.
- 240 million bushels is a minimum amount that would create a sustainable, critical mass that would supply the market with a year round supply.
- Create this critical mass by the summer of 2011.
- Concept IV is a 4 year, $35 million program.

SEVEN COMPONENTS OF THE PROGRAM

1. National coordinated and regionally managed program.
2. Research—Assistance to wheat breeding programs for new white wheat variety development to ensure reaching critical mass.
3. Access U.S. Government human feeding programs and export food aid assistance.
4. Domestic and export market development.
5. Access appropriate rural economic development programs.
6. Support to producers to ramp up "critical mass" hard white wheat production.
7. Assistance to first purchasers in coordination with NGFA.

National coordinated and regionally managed program

- Program nationally managed with the cooperative efforts of NAWG, U.S. Wheat and National Grain and Feed Association.
- Regions would be defined as "Great Plains" (KS, CO, NE, OK, TX, WY); "Northern Plains and the PNW" (MT, ND, SD, ID, OR, WA); "California"; and other.
- Coordinator for each defined region at a maximum cost of $125,000 per coordinator, per year. Coordinators are accountable to regional HWWDP committees composed of representatives from wheat commissions, first purchasers, seed dealers, wheat researchers, transporters and buyer-users and others as deemed appropriate with USDA oversight.

Research

- $1 million disbursed annually for wheat variety research and other research as determined by HWWDP Committee. Funds divided based on regional HW wheat production and as appropriated by HWWDP regional committees.

U.S. Government human aid programs

- Develop access to human food programs such as school nutrition programs, military procurement, correctional facilities and export food aid programs.

Domestic and Export Market development programs

- Commercial samples, sample testing and sampling transportation to potential domestic and foreign customers as determined by the HWWDP regional committees.
- Related promotions and promotional materials.

- HW wheat trade development teams.
- Training and consultation programs to assist customers in optimizing the value of HW wheat.
- Estimated at $250,000 per year, divided based on regional HW wheat production and as appropriated by HWWDP regional committees.

USDA Rural economic development programs

- Access appropriate USDA rural economic development programs.

Support to producers

- To qualify for the following certified seed purchase rebates, a producer must buy certified seed of a state sanctioned approved variety rated superior or better on quality.
- A $5 per acre seed rebate to be paid to the producer for certified HW wheat seed purchases, capped as following:
- Great Plains region (KS, CO, NE, OK, TX, WY)
  - ○ Fall of 07; 350,000 acres certified seed
  - ○ Fall of 08; 400,000 acres certified seed
  - ○ Fall of 09; 450,000 acres certified seed
  - ○ Fall of 10; 300,000 acres certified seed
- Northern Plains and The PNW (MT, ND, SD, ID, OR, WA)
  - ○ Fall of 07; 150,000 acres certified seed
  - ○ Fall of 08; 200,000 acres certified seed
  - ○ Fall of 09; 250,000 acres certified seed
  - ○ Fall of 10; 200,000 acres certified seed
- California
  - ○ Fall of 07; 100,000 acres certified seed
  - ○ Fall of 08; 150,000 acres certified seed
  - ○ Fall of 09; 200,000 acres certified seed
  - ○ Fall of 10; 150,000 acres certified seed
- Other—To be determined
- Estimated cost of seed rebate in first 4 years on 2.9 million aggregate acres = $14.5 million. This proposal does not include any rebate money for certified seed after 4 years.
- The goal of this is to make sure that HW wheat seed is available to the producer at a significant savings.

Assistance to first purchasers

- A rebate of 2.5¢ per bushel will be effective in bringing in the grain handler.
- For the first 3 years of the program, certain quality parameters should be met, including #2 or better grade, minimum 13.5 protein for a spring wheat variety, a minimum of 11.5 protein for a winter wheat variety, minimum 300 falling numbers. Quality based on settlement sheets. “Milling quality” is the goal.
- Handling Rebates are paid at $10,000 for every 500,000 bushels purchased, with an additional $5,000 bonus at each millionth bushel
- Handling rebates will be paid to the initial purchaser, based on settlement sheets.
- The handler will be responsible for selling the wheat.
  - ○ Summer of 08; 58 MILLION BU = $1.45 million rebate potential
  - ○ Summer of 09; 98 MILLION BU = $2.45 million rebate potential
  - ○ Summer of 10; 158 MILLION BU = $3.95 million rebate potential
  - ○ Summer of 11; 272 MILLION BU = $6.80 million rebate potential
- Total aggregate handling rebate potential is $14.65 million dollars.

TOTAL ESTIMATED COSTS FOR THE 4 YEARS ARE ABOUT $35 MILLION.

REMAINING FUNDS AT THE END OF THIS 4 YEAR PROGRAM WILL BE CARRIED INTO YEAR 5 AND USED ACCORDING TO THE EXISTING PROGRAM PROVISIONS.

ESTIMATED HW WHEAT PRODUCTION AT THE END OF 4 YEARS IS 272 MILLION BUSHELS.

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